

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****The Reporting Entity**

The reporting entity "King County" consists of King County Government as the primary government; the Harborview Medical Center (HMC), the Washington State Major League Baseball Stadium Public Facilities District (PFD), and the Cultural Development Authority of King County (CDA) as "discretely presented" component units; and the Flood Control Zone Districts as a "blended" component unit. Most funds in this report pertain to the entity King County Government or component units. Certain Agency Funds, referred to as Agency Funds – Special Districts/Other Governments, pertain to the County's custodianship of assets belonging to independent governments and special districts. Under the County's Home Rule Charter, the King County Executive is the ex officio treasurer of all special districts of King County, but not of the cities and towns. Pursuant to County ordinance, the Director of the Finance and Business Operations Division (FBOD) is responsible for the duties of the comptroller and treasurer. Money received from or for the special districts is deposited in a central bank account. The Director of the FBOD invests or disburses money pursuant to the instructions of the respective special districts.

**Component Units****Harborview Medical Center (HMC)**

The Harborview Medical Center (HMC), a 413 licensed-bed hospital with extensive ambulatory services, is located in Seattle, Washington. HMC is managed by the University of Washington (UW). The HMC Board of Trustees is appointed by the County Executive. The County Director of the Finance and Business Operations Division is the treasurer of HMC. HMC staff members are employees of UW. The management contract between the HMC Board of Trustees and the UW Board of Regents recognizes the Trustees' desire to maintain HMC as a means of meeting the King County Government's obligation to provide the community with a resource for health services, and UW's desire that HMC be maintained as a continuing resource for education, training, and research. The general conditions of the management contract specify that King County retains title to all real and personal property acquired for King County with HMC capital or operating funds. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The Trustees agree to secure UW's recommendations on any changes to the above. The Trustees are accountable to the public and King County Government for all financial aspects of HMC's operation and agree to maintain a fiscal policy that keeps the operating program and expenditures of HMC within the limits of operating income.

HMC is a component unit of the County for the following reasons: (1) it is a separate legal entity having its own corporate powers; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes and subject to legal appeal; and (3) although the County cannot impose its will on HMC, the unit creates a financial burden on the County because the County is responsible for the issuance and debt service of all general obligation bonds for HMC capital improvements. HMC's financial presentation is on the discrete component unit basis because the County and HMC's governing bodies are not substantively the same, and HMC does not provide services solely to King County. HMC financial data is as of its fiscal year-end, June 30, 2004, rather than the County's fiscal year-end of December 31, 2004.

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HMC hires independent auditors other than the County's independent auditors and prepares its own audited financial statements. These statements may be obtained from the Finance Section of the Harborview Medical Center, Finance Administration, 325 9th Avenue, Seattle, Washington 98104.

**Washington State Major League Baseball Stadium Public Facilities District (PFD)**

The Washington State Major League Baseball Stadium Public Facilities District (PFD) is the agency created by the Metropolitan King County Council (Ordinance 12000) on October 24, 1995, as authorized under chapter 36.100 Revised Code of Washington (RCW). The PFD operates as a municipal corporation of the State of Washington and was formed to site, design, build, and operate the major league baseball park. The PFD is governed by a seven-member board of directors, four of whom are appointed by the County Executive. The other three are appointed by the Governor of the State of Washington. The County, as the *ex officio* treasurer for the PFD, maintains several funds to account for construction, debt redemption, and special revenue collection. Construction was financed by a 1997 general obligation bond issue and contributions from the Baseball Club of Seattle. Debt service on the bonds is supported by sales and use taxes, sales and use tax credits, special lottery proceeds, special license plate sales, and an admissions tax. The stadium was completed in 1999 and is reported as an asset of the PFD.

The PFD is a component unit of the County for the following reasons: (1) it is a separate legal entity; (2) a majority of its board of directors (4 of 7) is appointed by the County Executive; and (3) there exists an indirect financial burden relationship between the PFD and the County since the County issued the bonds for the construction of the stadium, thereby making the County ultimately responsible for the debt. The PFD's financial statements are discretely presented because the two governing boards are not substantively the same and the PFD does not provide services solely to King County government.

The PFD reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements as audited by the State Auditor's Office. These statements may be obtained from the Public Facilities District, 110 South Atlantic Street, Seattle, Washington 98124.

**Cultural Development Authority of King County (CDA)**

The Cultural Development Authority of King County (CDA), dba 4Culture, is a public authority organized pursuant to chapters 35.21.730 through 35.21.759 Revised Code of Washington (RCW) and King County Ordinance 14482. The CDA was formerly the Office of Cultural Resources (OCR), a King County agency, and is now responsible for programs previously administered by the OCR. The CDA commenced operations on January 1, 2003, and began doing business as "4Culture" effective April 4, 2004. Per King County Ordinance 14482, the CDA was created "exclusively to support, advocate for and preserve the cultural resources of the region in a manner that fosters excellence, vitality, and diversity. The authority shall further the goals and objectives of the King County Comprehensive Plan, establish cultural resource policies, and operate in a manner that ensures King County citizens and visitors have access to high quality cultural programs and experiences." The CDA operates in a manner that combines public sector resources and accountability with private sector entrepreneurial

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responsiveness to offer King County citizens and visitors a variety of programs and services that enhance opportunities to participate in arts, heritage, historic preservation, and public art.

The CDA is located in Seattle, Washington and is governed by a 15-member board of directors and five *ex officio* members. The directors are appointed by the County Executive and confirmed by the County Council. The CDA receives various funds from King County and other sources that are designated for arts, cultural and public art use, including a portion of the revenue generated by the King County lodging tax and one percent of King County expenditures for certain construction projects.

The CDA is a component unit of the County for the following reasons: (1) it is a separate legal entity (public authority) created by King County ordinance; (2) the CDA's board of directors are appointed by the County Executive (from a non-restrictive pool of candidates) and confirmed by the County Council; and (3) the County is able to impose its will on the CDA, for example, the County has the power to remove a director from the CDA board and the power to dissolve the CDA. The CDA's financial presentation is as a discrete component unit because it does not meet the criteria for blending, i.e., the County and CDA's governing bodies are not substantively the same, and the CDA does not provide services solely to King County.

The CDA reports on a fiscal year-end consistent with the King County primary government. The CDA prepares and issues its own financial statements, which are audited by the State Auditor. These statements may be obtained from the Finance Department of the Cultural Development Authority of King County at 4Culture, 506 2nd Avenue, Suite 200, Seattle, Washington 98104.

**Flood Control Zone Districts (FCZD)**

The Flood Control Zone Districts (FCZD) in King County are administered by the Water and Land Resources Division of the Department of Natural Resources and Parks. FCZD were created under authority in chapter 86.15 RCW to manage, plan, and construct flood control facilities within district boundaries. By statute, the King County Council serves as the Board of Supervisors for each FCZD. The King County Executive, under the County Charter, is the County Administrator (the County Engineer) for these districts.

Four funds are currently used to account for activities and/or fund balances for four FCZD although there are eleven FCZD in King County. Most of these districts are inactive, have no annual budget, provide no flood control services, and have no appointed advisory committees. The Patterson Creek FCZD has an advisory committee appointed by the County Council, but the district has not been active. Only the Green River Flood Control Zone District is currently active. It activated collection of an *ad valorem* based tax in 1990 for operation and maintenance of major flood facilities on the Green River within the district.

FCZD are component units of the County for the following reasons: (1) they are legally separate entities established as quasi-municipal corporations and independent taxing authorities; (2) King County, in effect, appoints the voting majority of the FCZD board because the County Council members are the *ex officio* supervisors of each FCZD; and (3) the County can impose its will on the FCZD. FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. They are classified as Special Revenue funds and do not issue independently audited financial statements.

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The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the United States Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected official (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to grantors for disallowed costs. If expenditure of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle, each being responsible for one-half of the disallowed amount. As of December 31, 2004, there are no outstanding program eligibility issues that might lead to a King County liability.

The WDC contracts with King County, which provides programs related to dislocated workers, welfare to work, and workforce centers. For the year 2004 WDC reimbursed King County approximately \$9.9 million in eligible program costs.

The WDC issues independent financial statements that may be obtained from the Workforce Development Council located at 2003 Western Avenue, Suite 250, Seattle, Washington 98121-2162.

**Related Organizations**

The King County Library System (KCLS) and the Library Capital Facility District (LCFD) are legally separate entities, though both organizations are related to King County. The County Council appoints a majority of the board of the KCLS and selected Council members make up the 3-member board of the LCFD. There is, however, no evidence that the Council can influence the programs and activities of either organization or that either organization creates a financial benefit or burden to the County. For these reasons, the KCLS and LCFD are related organizations. The County serves as the treasurer for these special districts, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are routinely reported as agency funds of the County.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule include interfund services provided and used between functions, which are not eliminated because to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported

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separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Basis of Accounting, Measurement Focus, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of, the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized

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as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues, such as Retail Sales and Use Taxes, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payments are due.

**Major Governmental Funds**

The County reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The Public Health Fund is used to finance health service centers located throughout King County and all Public Health programs. The Public Health Fund supports four of the department's five lines of business including clinical health services/primary care assurance, management and business practice, population and environmental health services, and targeted community health services. The fifth line of business is emergency medical services, which is supported by a separate County Emergency Medical Services Fund.

The Harborview Medical Center Bond Administration Fund is a nonbudgeted CIP fund, administratively created to support reporting in compliance with generally accepted accounting principles. It accounts for the 2004 receipt of bond proceeds in the primary government and subsequent transfer of the proceeds to a component unit.

**Major Proprietary Funds**

The County reports the following major proprietary funds:

The Public Transportation Enterprise accounts for the operations, maintenance, capital improvements, and expansion of public transportation facilities in King County under the King County Metro Transit Division. Primary revenue sources include sales tax and passenger service fees. Construction is funded through sales tax, issuance of bonds, and federal grants.

The Water Quality Enterprise accounts for the operations, maintenance, capital improvements, and expansion of the County's water pollution control facilities under the King County Wastewater Treatment Division. The enterprise has two major treatment plants: the West Point Treatment Plant in Seattle and the East Division Reclamation Plant in Renton. Major construction projects are funded through operating income, grants, state loans, and issuance of revenue bonds.

**Nonmajor Governmental Funds**

Special Revenue Funds are used to account for a variety of County programs including alcoholism and substance abuse, arts, automated fingerprint identification system, community development, road maintenance, emergency medical services, enhanced 911 emergency

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telephone system, local hazardous waste management, mental health services, parks, surface water management, and other services.

Debt Service Funds are used by the County to account for the accumulation of resources for, and the payment of, principal and interest on the County's general obligation bonds.

Capital Projects Funds are used to account for the acquisition, construction, and remodeling of public buildings, including arts and historic preservation projects; County facilities renovation projects; open space acquisition; road construction; farmland preservation; health clinic projects; surface and storm water management projects; technology systems; and other projects.

**Nonmajor Proprietary Funds**

Enterprise Funds are used to account for the County's business-type operations including the King County International Airport, solid waste disposal facilities, and other services.

Internal Service Funds are used to account for the provision of motor pool, data processing, risk management, construction and facilities management, financial, employee benefits programs, and other services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. One internal service fund, the Wastewater Equipment Rental Fund, was established to serve the Water Quality Enterprise. Accordingly, this fund is reported as Business-type Activities on the basic statements.

**Fiduciary Funds**

Investment Trust Funds are used to report investment activity conducted by King County on behalf of legally separate entities such as special districts and public authorities that are not part of the County's reporting entity.

King County recognizes two major classifications of Agency Funds: (1) those used with the operations of county government such as Undistributed Taxes Fund and Accounts Payable Clearing Fund; and (2) those which account for cash received and disbursed in the County's capacity as *ex officio* treasurer or collection agent for special districts and other governments such as School Districts and Fire Districts.

**Terminology**

**General Revenues and General Governmental Expenditures**

General revenues and general governmental expenditures used in this report are total revenues and expenditures for three governmental fund types: (1) the General Fund; (2) Special Revenue Funds; and (3) the Debt Service Funds. The revenues and expenditures for all other fund types are excluded from these amounts.

**Expenditure Functions and Characters**

General Government Services – A class of services provided by the legislative and administrative branches of the government entity for the benefit of the public or governmental body as a whole. This function includes the County Council, County Executive, Office of

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Budget, Information and Administrative Services, Records and Elections, Human Resource Management, and Assessments.

Law, Safety and Justice – A class of services essential to the safety of the public, including expenditures for law enforcement, detention and/or correction, judicial operations, protective inspections, emergency services, and juvenile services. This function includes the Sheriff's Office, Prosecuting Attorney, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, and Emergency Medical Services.

Physical Environment – A class of services provided to achieve a satisfactory living environment for the community and the individual. This function includes Natural Resources, River Improvement, Animal Control, Surface Water Management, and River and Flood Control Construction.

Transportation – A class of services provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, general administration, and transportation facilities and systems. This function includes County Road, Arterial Highway Development, Renton Maintenance Facilities Construction, and County Road Construction.

Economic Environment – A class of services provided for the development of, and improvement in, the welfare of the community and individual that includes expenditures for employment opportunity and development, veterans' services, childcare services, and aging and handicapped services. This function includes Veterans' Relief, Youth Employment Programs, Office of Aging, Women's Programs, Development and Environmental Services, and Planning and Community Development.

Mental and Physical Health – A class of services provided to promote healthy people and healthy communities by preventing and treating mental, physical, and environmentally induced illnesses. This includes expenditures for community mental health, communicable diseases, environmental health, public health clinics and programs, alcoholism treatment drug abuse prevention, programs for the mentally disabled and mentally ill, the medical examiner, hospitals, and jail health services. This class also includes regional local hazardous waste management and for 2004 an expenditure to reflect the transfer of bond proceeds to the component unit Harborview Medical Center.

Culture and Recreation – A class of services provided to increase the individual's understanding and enjoyment including expenditures for education, libraries, community events, participant recreation, park facilities, and cultural and recreational facilities. This function includes Parks, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service – A character of expenditure that accounts for the redemption of general long-term debt principal and interest and other debt service costs in the General, Special Revenue, Debt Service, and Capital Projects Funds and payments to escrow agents other than refunding bond proceeds.

Capital Outlay – A character of expenditure that accounts for expenditures related to capital projects and expenditures for capital assets acquired by outright purchase and by capital lease financing agreements.



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Certain Accounts are Grouped on the Statement of Net Assets:

- The asset account *Receivables, net* combines Taxes receivable – delinquent; Accounts receivable, net; Other receivables, net; Interest receivable; Notes and contracts receivable; and Due from other governments, net.
- The asset account *Deferred charges* combines Deferred charges – environmental remediation costs, Deferred charges – issuance costs, and Due from employees.
- The liability account *Accounts payable and other current liabilities* combines Accounts payable, Due to other governments, Taxes payable, Contracts payable, Custodial accounts, and other liabilities.
- The liability account *Accrued liabilities* combines Wages payable and Interest payable.
- The liability account *Noncurrent liabilities* includes Claims and judgments payable, Estimated claim settlements, General obligation bonds, Special assessment bonds, Revenue bonds payable, Excess earnings liabilities, Capital leases, State revolving loan payable, Compensated absences, Environmental and property remediation, Unamortized premium on bonds sold, Deferred charges – refunding losses, and other liabilities.

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Receivables for governmental funds are reported net of estimated uncollectible amounts in the basic financial statement, Balance Sheet - Governmental Funds. The schedule below shows receivables at gross with the related estimated uncollectible accounts.

	<b>General Fund</b>	<b>Public Health Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Receivables				
Accounts receivable	\$ 61,956,493	\$ 3,067,211	\$ 26,229,906	\$ 91,253,610
Estimated uncollectible accounts receivable	(54,527,600)	(19,669)	(5,991,620)	(60,538,889)
Accounts receivable, net	<u>\$ 7,428,893</u>	<u>\$ 3,047,542</u>	<u>\$ 20,238,286</u>	<u>\$ 30,714,721</u>
Other receivables				
Abatements receivable	\$ -	\$ -	\$ 452,619	\$ 452,619
Estimated uncollectible abatements receivable	-	-	(446,192)	(446,192)
Assessments receivable - current	-	-	86,362	86,362
Assessments receivable - delinquent	-	-	9,987	9,987
Assessments receivable - deferred	-	-	338,226	338,226
Accrued interest/penalty receivable - delinquent assessments	-	-	6,051	6,051
Other receivables, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 447,053</u>	<u>\$ 447,053</u>
Due from other governments	\$ 29,243,387	\$ 21,166,505	\$ 39,728,324	\$ 90,138,216
Estimated uncollectible due from other governments	(296,396)	-	-	(296,396)
Due from other governments, net	<u>\$ 28,946,991</u>	<u>\$ 21,166,505</u>	<u>\$ 39,728,324</u>	<u>\$ 89,841,820</u>

**Cash and Cash Equivalents**

Cash and cash equivalents consists of: Cash and pooled investments, Petty cash/change funds, Cash with escrow agent, and Cash held in trust.

All County funds and most component units and special districts participate in the King County Investment Pool (the Pool) maintained by the King County Treasury Operations Section. (See Note 4, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements.") The Pool consists of internal and external portions. For Pool participants, the Pool functions essentially as a demand deposit account where participants receive an allocation of their proportionate share of pooled earnings. Each fund's equity share of the internal portion of the Pool's net assets is reported on the balance sheet as Cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. Included in the internal portion of the Pool is the investment of short-term cash surpluses not

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otherwise invested by individual funds. The interest earnings related to this investment of short-term cash surpluses are allocated to the General Fund in accordance with legal requirements and are used in financing general County operations.

**Investments**

In addition to pooled investments described under Cash and Cash Equivalents, King County holds other investments in qualified public depositories for County government and special districts for which, either by Washington state law or by contract, King County is the custodian. Monies are invested as directed by the governing authority for the fund or agency and proceeds are returned to the investing fund.

Investments purchased for individual funds, regardless of length of maturity, are reported as Investments. Those attributed to both the external portion of the Pool and those in individual investment accounts are classified as "Investments" in separate investment trust funds. Statements of participants in the Pool's internal portion report pooled investments as cash equivalents. Statements of participants in the external portion report pooled investments as "Assets held in trust – external investment pool." Special district funds with individual investment accounts report their portion of net assets as "Assets held in trust - individual investment accounts." Investments are reported at fair value in compliance with the GASB Codification, Section 150.105, which provides for reporting investments of governmental entities using fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. (See Note 4, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements.")

**Receivables**

Amounts due from private individuals, organizations, or other governments are recorded at year-end. These amounts include charges for services rendered by the County or intergovernmental grants. All unbilled service receivables are recorded at year-end.

Receivables are reviewed at year-end to establish or update the provisions for estimated uncollectible receivables. These provisions are estimated based on an analysis of an aging of the year-end Accounts receivable balance and/or the historical rate of uncollectibility.

Taxes Receivable – Property taxes levied for the current year are recorded on the balance sheet as Taxes receivable and Deferred revenues at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues.

Abatements Receivable – In the Development and Environmental Services Fund, a Special Revenue Fund, the Abatements receivable account records the unpaid civil penalties and abatement costs due the County from liens filed by the Code Enforcement Section on property within the County. Deferred revenue is recorded for the abatements receivable and revenue is recognized when payment is made because liens may not be paid until the property is sold, which can be years later.

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Assessments Receivable – In the governmental funds, unpaid assessments are reported in three accounts: Current, Delinquent, and Deferred. Current assessments are those due within one year, Delinquent assessments are past due, and Deferred assessments are due beyond one year. Revenues from the assessments are recognized as they become current; that is, both measurable and available to finance expenditures of the current period.

Short-term Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund short-term loans receivable/payable," (the current portion of interfund loans), or "Advances to/from other funds," (the non-current portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal balances."

Advances to Other Funds – Noncurrent portions of long-term interfund loans receivable are reported as Advances. In governmental funds they are offset equally by a fund balance reserve account that indicates they do not constitute expendable available financial resources and are not available for appropriation.

**Inventories**

Inventories of supplies are held by the following funds or divisions. The methods of valuing ending inventories are as stated below:

Those funds with inventories using the first-in, first-out valuation method, approximated by using latest invoice amounts, include: Solid Waste Operating, King County International Airport Operating, Radio Communications Operating, Construction and Facilities Management, and Public Health Funds.

The Motor Pool Equipment Rental, Public Works Equipment Rental, and Wastewater Equipment Rental Funds use the moving average valuation method.

The Water Quality Operating and Public Transportation Operating Funds use the weighted average cost valuation method.

The last physical count of these inventories was as of December 2004, except for the inventories of the Public Transportation and Water Quality Operating Funds, which use cycle counting.

The Public Health Fund inventory is accounted for under the consumption method. Under the consumption method, an inventory asset is recorded when the materials and supplies are purchased, and the expenditure is recognized as the inventories are used. Inventories are offset by a fund balance reserve account in the financial statements.

**Prepayments**

Payments made to vendors for services that will benefit periods beyond December 31, 2004, (or June 30, 2004, for Harborview Medical Center), are recorded as prepaid items.

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Capital assets include: Land (fee simple land, right-of-way and easements, and farmland development rights); Infrastructure (roads and bridges network); Buildings; Improvements other than buildings; Furniture, machinery and equipment; and Work in progress. General capital assets, including those in internal service funds that support governmental funds, are reported in the governmental column of the government-wide statement of net assets. Capital assets of enterprise funds, including those in internal service funds that exclusively support enterprise funds, are reported in the business-type column of the government-wide statement of net assets. Enterprise and internal service fund capital assets are also reported in the individual proprietary fund balance sheets. The capitalization threshold in the King County Primary Government is \$1,000.

The County's general capital infrastructure, which consists of the entire network of roads and bridges, was initially reported in 2002. The base value at the beginning of 2002 included the estimated cost of all infrastructure and related right-of-way including those acquired prior to December 31, 1980. Because the County is committed to maintaining the infrastructure indefinitely, it has elected to use the modified approach to infrastructure reporting in lieu of the depreciation method. The County is eligible to use the modified approach because it has an asset management system in place that allows for constant monitoring of the infrastructure to ensure that they are maintained and preserved at the predetermined condition level set by the Road Services Division of the Department of Transportation. The asset management system tracks the number, mileage, condition, and the actual and planned maintenance and preservation costs of individual infrastructure elements (road segments and bridges).

Certain equipment and facilities used in Solid Waste Enterprise landfill closure and post-closure activities are not reported as capital assets. Instead, the liability for landfill post-closure care is reduced by the extent of these costs.

Capital assets are valued at historical cost or estimated historical cost where actual historical cost is not available. Donated capital assets are valued at their estimated fair market value at the time of donation. Expenditures for maintenance and repairs that do not add to the value of the assets or materially extend their lives are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized. Costs incurred to extend the life of governmental infrastructure assets (roads and bridges) are considered preservation costs and are therefore not capitalized.

Governmental capital assets other than land, infrastructure, and artwork are depreciated in accordance with GASB Statement No. 34. As with business-type capital assets, i.e., enterprise and internal service funds, provision is made for depreciation over the estimated useful lives of the depreciable assets using the straight-line method.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 1 – CONTINUED**

Buildings, structures, and their components have been depreciated over their estimated useful lives as follows:

<u>Description</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings - constructed	Straight-line	40 to 60 years
Buildings, transfer stations, shops, scale offices, etc.	Straight-line	10 to 30 years

In the Enterprise and Internal Service Funds, Improvements other than buildings have been depreciated over their estimated useful lives of 10 to 50 years using the straight-line method. In the Public Transportation Enterprise, the transit downtown tunnel is being depreciated over 50 years. Sewer lines in the Water Quality Enterprise are being depreciated over 50 years.

Furniture, machinery and equipment are given various lives of 3 to 20 years, depending upon their classification:

<u>Description</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Data processing equipment	Straight-line	3 to 10 years
Telecommunication equipment	Straight-line	6 to 10 years
Automobiles – cars, vans, etc.	Straight-line	5 years
Automobiles – trucks	Straight-line	6 to 8 years
Buses	Straight-line	12 years
Heavy equipment	Straight-line	7 to 15 years
Medical equipment	Straight-line	3 to 20 years
Shop equipment	Straight-line	5 to 10 years
Office equipment	Straight-line	3 to 10 years

**Deferred Charges**

The government-wide financial statements and proprietary fund types in the fund financial statements defer expenditures for debt issuance, which are amortized over the life of the respective bond issues. The Public Transportation Enterprise includes certain amounts due from employees as deferred charges. In accordance with Financial Accounting Standards Board (FASB) Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, the Water Quality Enterprise defers environmental remediation costs, which are amortized over 40 years. The Water Quality Enterprise is a regulated utility per FASB Statement No. 71 because rates, which are designed to recover the cost of providing services, are set by the County Council per RCW 35.58.200(4) and RCW 36.56.010. Both the government-wide and proprietary fund types in the fund financial statements defer bond premiums, discounts, and refunding losses, which are reported in the statement of net assets under Noncurrent liabilities and in the fund financial statements under Long-term liabilities.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 1 – CONTINUED****Deferred Revenues**

Deferred revenues include: (1) amounts collected before revenue recognition criteria are met, such as Deferred parks program revenue and building and land development permit fees (unearned revenues); and (2) receivables that, under the modified accrual basis of accounting, are measurable but not yet available, such as Delinquent property taxes receivable, Abatements receivable, and Special assessments receivable.

**Rebatable Arbitrage**

The County's tax-exempt debt is subject to arbitrage restriction as defined by the Internal Revenue Code. All of the County's bonded debts are tax-exempt except three taxable debts as identified in Note 13, "Debt" – Schedule of Long-term Debt. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The County does not recognize a liability for arbitrage at the fund level unless this liability is due and payable at the end of the year. At the government-wide level, however, the liability is recognized during the period the excess interest is earned.

**Compensated Absences**

Eligible King County employees earn 12 days of sick leave and 10 to 30 days of vacation per year, depending on the individual employee's length of service and other factors. An unlimited amount of sick leave and a maximum of 60 days of vacation may be accrued. An employee leaving the employ of King County is entitled to be paid for unused vacation leave and, if retiring as a result of length of service or terminating by reason of death, for 35 percent of the value of unused sick leave. For reporting purposes, a variety of factors are used to estimate the portion of the accumulated sick leave that is subject to accrual.

A liability is accrued for estimated excess compensation liabilities to the Washington State Department of Retirement Systems based on an employee's accrued vacation and sick leave. An excess compensation liability is incurred when any employee whose retirement benefits are based in part on excess compensation receives a termination or severance payment defined by the State as excess compensation. This includes, but is not limited to, a cashout of unused annual leave in excess of 240 hours and a cashout of any other form of leave.

All vacation pay liability and a portion of sick leave liability is accrued in the government-wide, proprietary, and fiduciary fund financial statements. The proprietary funds follow the GASB's Codification, Section C60, and recognize a long-term liability for compensated absences in the accounting period in which it is earned.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, refunding losses, as well as issuance costs, are deferred and amortized over the life of the bonds using outstanding principal balance method. Bonds payable are reported net of the applicable bond premium or discount. Bond refunding losses and issuance costs are reported as deferred charges and amortized over the term of the related debt.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 1 – CONTINUED**

In the fund financial statements, governmental fund types recognize bond premiums, discounts, as well as bond issuance cost, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

**Component Units – Summary of Significant Accounting Policies****Harborview Medical Center (HMC)**

Harborview Medical Center (HMC), as a county hospital within the Municipal Corporation of King County, maintains its own distinct set of accounting records. HMC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB). In addition, based on GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Account, HMC has elected to apply the provision of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The HMC financial statements are reported as a business type activity, as defined by GASB Statements No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government. The Component Unit – Harborview Medical Center Statement of Net Assets and Statement of Activities reflects HMC's financial position at June 30, 2004.

Land, buildings, and equipment are stated at historical cost. Improvements and replacements of building and equipment are capitalized. Maintenance and repairs are expensed. The provision for depreciation is determined by the straight-line method, which allocates the historical cost of capital assets over their estimated useful lives. Upon disposal, capital assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded. Interest cost incurred on funds borrowed by HMC during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during 2004.

HMC, as an instrumentality of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

**Washington State Major League Baseball Stadium Public Facilities District (PFD)**

The PFD uses the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned.

Cash and cash equivalents consists of cash and pooled investments managed by the King County Treasury Operations Section. The King County Treasury Operations Section Manager pools and invests all short-term cash surpluses not otherwise invested by individual funds of the



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 1 – CONTINUED**

County. Earnings from these pooled investments are allocated to the PFD based upon its share of equity in the Pool.

Capital assets include the Baseball Stadium and Furniture, machinery, and equipment. The Baseball Stadium includes all costs associated with the development and construction of the ballpark project. Development costs include District staffing and related operating costs, architect and engineering fees, environmental consulting fees, and all other costs related to the development of the ballpark project.

Capital assets are valued at historical cost. Only interest on interim financing during pre-construction and construction is capitalized.

Capital assets are depreciated on a straight-line basis based on their estimated useful lives. Furniture and equipment are depreciated over three or five years. The Baseball Stadium is depreciated over 40 years from the date it was placed in service.

District employees earn 12 days of sick leave and 10 to 15 days of vacation per year, depending on the individual employee's length of service. An unlimited amount of sick leave may be accrued and two times the annual vacation allotment may be accrued. An employee leaving the employ of the PFD is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in wages payable in the accompanying balance sheet.

**Cultural Development Authority of King County (CDA)**

The CDA maintains its own distinct set of accounting records. It is required to maintain its financial records using the accrual basis of accounting in conformity with restrictions or designations imposed by the State municipal corporation laws.

The CDA's accounts are organized into an operating fund, several program funds, and a restricted fund (Cultural Endowment Fund).

- Operating Fund – used to pay for the CDA's administrative support.
- Program Funds – used to segregate different revenue sources and to comply with expenditure requirements.
- Cultural Endowment Fund – consists of 40 percent of the Hotel/Motel tax revenue allocation to the CDA. The principal portion of the fund is permanent and irreducible. Interest earnings in the fund are available for the support of the arts, the performing arts, art museums, heritage museums and cultural museums of King County.

The capitalization threshold for the CDA is \$10,000, which generally applies to Furniture, machinery and equipment.

The CDA, as an instrumentality of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

The CDA employees earn 12 sick days per year and 12 to 30 days of vacation per year, depending on length of service. An unlimited amount of sick leave and 30 days of vacation may be accrued. Unused sick leave is forfeited upon termination of employment.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,283,901,250 difference are as follows:

Bonds payable	\$ 1,040,052,421
Less: Deferred charge on refunding (to be amortized as interest expense)	(18,778,011)
Deferred charge for issuance costs (to be amortized over life of debt)	(4,850,790)
Plus: Unamortized premiums on bonds sold	33,088,194
Special assessment debt	15,000
Claims and judgments payable	21,419,661
Accrued interest payable	5,622,185
Capital leases payable	142,259,349
Compensated absences	62,992,992
Unemployment compensation payable	1,758,000
Rebatable arbitrage	<u>322,249</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 1,283,901,250</u>

**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$172,556,667 difference are as follows:

Capital outlay	\$ 201,396,919
Depreciation expense	<u>(28,840,252)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 172,556,667</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – CONTINUED**

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net assets." The details of this \$26,529,433 difference are as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. In the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the book value of the capital assets sold.	\$ (42,945,387)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	<u>69,474,820</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 26,529,433</u>

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds." The details of this \$1,112,926 difference are as follows:

Property tax accrual	\$ (1,281,135)
Surface Water Management service charge accrual	164,431
Probation and parole service charge accrual	(169,193)
Work release service charge net accrual	55,983
Fines and forfeits net accrual	<u>116,988</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (1,112,926)</u>

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 2 – CONTINUED**

Another element of that reconciliation states, "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$242,206,457 difference are as follows:

Debt issued or incurred	
Issuance of general obligation bonds	\$ (246,435,000)
Issuance of refunding general obligation bonds	(102,315,000)
Capital lease financing	(62,805,185)
Premium on bonds issued	(17,807,465)
Bond issuance costs	2,349,535
Principal repayments	65,251,725
Receipts from component units for principal repayments	(1,140,379)
Payment to escrow agent for refunding	<u>120,695,312</u>
Net adjustment to decrease <i>net changes in fund</i>	
<i>balances – total governmental funds to arrive at</i>	
<i>changes in net assets of governmental activities</i>	<u>\$ (242,206,457)</u>

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$6,344,389 difference are as follows:

Claims and judgments	\$ 1,963,101
Compensated absences	880,832
Accrued unemployment compensation	517,000
Accrued rebatable arbitrage	845,750
Accrued Interest	613,344
Amortization of issuance costs	(553,683)
Amortization of deferred charge on refunding	(2,049,053)
Amortization of bond premiums	<u>4,127,098</u>
Net adjustment to increase <i>net changes in fund</i>	
<i>balances – total governmental funds to arrive at</i>	
<i>changes in net assets of governmental activities</i>	<u>\$ 6,344,389</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – CONTINUED**

Another element of that reconciliation states, "Net revenues and expenses of certain activities of internal service funds are reported with governmental activities." The details of this \$11,662,181 difference are as follows:

Investment interest earnings	\$ 2,549,799
Revenues related to services provided to outside parties	1,824,034
Expenses related to services provided to outside parties	(2,046,852)
Loss on disposal of capital assets	(484,383)
Interest on long-term debt	(176,227)
Capital contributions	304,523
Transfers in	1,706,630
Transfers out	(2,132,107)
Internal service fund losses allocated to governmental activities	<u>(13,207,598)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (11,662,181)</u>

**Explanation of certain differences between the proprietary fund statement of net assets and the government-wide statement of net assets:**

The proprietary fund statement of net assets includes a reconciliation between *net assets – total enterprise funds* and *net assets of business-type activities* as reported in the government-wide statement of net assets. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The assets and liabilities of one internal service fund, Wastewater Equipment Rental Fund, are included in the business-type activities in the statement of net assets because the fund was established to serve the Water Quality Enterprise. The details of this \$14,252,315 difference are as follows:

Net assets of the business-type activities internal service fund	\$ 6,997,928
Internal receivable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds – prior years	2,409,779
Internal payable representing the amount undercharged to the enterprise funds by the governmental activities internal service funds – current year	<u>(23,660,022)</u>
Net adjustment to decrease <i>net assets – total enterprise funds</i> to arrive at <i>net assets of business-type activities</i>	<u>\$ (14,252,315)</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – CONTINUED**

**Explanation of certain differences between the proprietary fund statement of revenues, expenses, and changes in fund net assets and the government-wide statement of activities:**

The proprietary fund statement of revenues, expenses, and changes in fund net assets includes a reconciliation between *change in net assets – total enterprise funds* and *change in net assets of business-type activities* as reported in the government-wide statement of activities. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The details of this \$23,105,505 difference are as follows:

Investment interest earnings	\$ 100,386
Revenues related to services provided to outside parties	2,643
Expenses related to services provided to outside parties	(2,966)
Gain on disposal of capital assets	45,331
Capital contributions	20,928
Transfers in	42,601
Internal service fund losses allocated to business-type activities	<u>(23,314,428)</u>
Net adjustment to decrease <i>change in net assets– total enterprise funds</i> to arrive at <i>change in net assets of business-type activities</i>	<u>\$ (23,105,505)</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY****Bases of Budgeting**

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and Generally Accepted Accounting Principles (GAAP) Basis Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual, for example, intergovernmental revenues, where revenue estimates are matched with appropriations. Budgeted appropriations include both Expenditures and Other financing uses; they are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets applicable to the current fiscal year.

Twenty-five Special Revenue Funds have annual budgets with budgeting concepts identical to the General Fund. Twenty-four of these funds are presented in the budget and actual schedules of this report. One of these funds, the Arts and Cultural Education Fund, was inactive in 2004.

Two Special Revenue Funds (the Community Development Block Grant Fund and the Miscellaneous Grants Fund) do not have an annual basis of budgeting. Budgets within these funds are on a multi-year basis with the budget for a particular program covering one or more fiscal years. Total revenues and expenditures for the program are budgeted at its inception and any unexpended balance at the end of the fiscal year is reappropriated to the next fiscal year.

The Flood Control Zone Districts Funds are not budgeted. These funds account for four flood control zone districts' activities in accordance with chapter 86.15 RCW.

The Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with chapter 36.88 RCW.

The Treasurer's Operations and Maintenance Fund, pursuant to RCW 84.56.020, is not budgeted.

Three Debt Service Funds have an annual budget with budgeting concepts identical to the General Fund. These funds are presented in the budget and actual statements of this report. In the Limited Obligation Bond Redemption Fund, revenues and expenditures related to proprietary type debt service payments are budgeted.

Two Debt Service Funds, the Road Improvement Districts Special Assessment Debt Redemption Fund and Road Improvement Guaranty Fund, are not budgeted. These funds report road improvement districts' special assessments revenues and debt service expenditures in accordance with chapter 36.88 RCW.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund and the Harborview Medical Center Bond Administration Fund, are controlled by multi-year budgets. However, capital budget appropriations are canceled at the end of the year unless the County Executive submits to the County Council the report of the final year-end reconciliation of expenditures for all capital projects on or before March 1 of the year following

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 3 – CONTINUED**

the year of the appropriation and each year thereafter in which the appropriation remains open.

The Road Improvement Districts Construction Fund is not budgeted. This fund reports capital improvement assessments construction activity in accordance with chapter 36.88 RCW.

The Harborview Medical Center Bond Administration Fund, opened and closed in 2004, was not budgeted. The fund was created administratively to record, in compliance with generally accepted accounting principles, a 2004 receipt of bond proceeds in the Primary Government and the recognition of an expenditure to show an effective capital contribution to Harborview Medical Center.

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund) are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations, is deferred to the following year when the claim is paid. In 2004 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis schedules due to insufficient appropriations in the current year.

The Trust and Agency Funds are not budgeted.

**Encumbrances**

Encumbrances outstanding as of December 31, 2004, are shown in the following schedule by fund type:

**Year-end Encumbrances Outstanding as of December 31, 2004**

General Fund	\$ 5,100,011
Public Health Fund	1,278,450
Special Revenue Funds	22,271,088
Capital Projects Funds	61,479,139
Enterprise Funds	4,258,340
Internal Service Funds	<u>5,415,003</u>
Total All Funds	<u>\$ 99,802,031</u>



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 3 – CONTINUED****Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds**

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the GAAP basis in 2004. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. Budget to actual statements and schedules of the governmental funds include an explanation of the differences between the two bases. All statements that do not have budget comparisons are prepared on the GAAP basis.

**Budgeted Level of Expenditures**

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and five Special Revenue Funds (the Community Development Block Grant, County Road, Criminal Justice, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at the end of the year. The budgetary comparison schedules (budgetary basis) include variances at the function of expenditure level. These variances are presented for informational purposes only and, if negative, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

**Expenditures including Other Financing Uses, in Excess of Amounts Legally Authorized****Funds with Multi-year Budgets**

Thirty-two capital projects in ten Capital Projects and Enterprise Funds with multi-year budgets have a combined total of \$5.0 million of expenditures in excess of budget. These deficits are expected to be corrected by additional appropriations in 2005.

**Funds with Annual Budgets**

All funds and departments/divisions with annual budgets completed the year within their legally authorized expenditures, including other financing uses except for one Debt Service Fund. Payments made in 2004 to the escrow agent from Debt Service Funds were authorized by Washington state law (RCW 82.14.360) and/or County ordinances nos. 12686 and 13953. Although the payments were authorized by law or ordinance and the revenue to cover the payments was available, \$8,103,230 was not appropriated as required. As a result, expenditures exceeded appropriations in the Limited General Obligation Bond Redemption Fund by \$3,635,567.

**Fund Balance and Net Asset Deficits**

Construction and Facilities Management Fund – The deficit of \$1,311,085 is the result of a net loss in 2003. The loss was primarily due to 2003 budget actions intended to reduce the fund's

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 3 – CONTINUED**

working capital. During 2004 the deficit was reduced by \$273,046 from \$1,584,131. It is anticipated that the fund will increase its working capital in 2005, further reducing the deficit. In conjunction with the 2006 budget, a multi-year plan is being developed to eliminate the deficit over a period of time.

County Road Fund – The deficit of \$2,432,096 is the result of a negative \$1,486,483 Prior Period Adjustment to revenue for a 1990 Federal Emergency Management Agency (FEMA) Grant and a \$945,613 shortfall in programmed revenue due to a delay in the sale of assets. It is anticipated that asset sales and an increase in property tax revenue in 2005 will eliminate the deficit.

Open Space Projects Acquisition and Improvement – The deficit of \$21,417,237 is the result of temporary short-term financing of critical capital acquisitions through the issuance of bond anticipation notes which will eventually be retired with general obligation bonds. When the long-term bonds are issued, the fund balance deficit will be eliminated.

Printing/Graphic Arts Services Fund – The deficit of \$382,086 is the result of a decline in printing and graphics internal revenue. Sales volume is expected to increase in 2005 due to an emerging business opportunity with City of Seattle government agencies, the acquisition of additional equipment and printing capabilities, and marketing activities directed at King County agencies. Combined with modest rate increases, these initiatives are expected to generate sufficient revenue to eliminate the deficit by late 2005.

Safety and Workers' Compensation Fund – The deficit of \$43,352,484 is the result of losses in several years in the last ten years and the change of the method in 2004 for estimating workers' compensation claim liabilities from using primarily the case reserves to an actuarially developed liabilities estimate. The change resulted in a large increase in the reported liabilities and related expenses in 2004. A funding plan is being developed to build the assets to equal the liabilities over a number of years.

Transfer of Development Credit Program Fund – The deficit of \$1,235,736 is the result of spending financed by short-term borrowing which will eventually be reimbursed by contributions from the Conservation Futures Levy Fund.

**Water Quality Enterprise Bond Covenants**

With respect to the year ended December 31, 2004, the Water Quality Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited financial statements and a consulting engineer's report within 120 days of year-end and having a minor (\$87,277) shortfall in bond reserves. The Water Quality Enterprise has six months beyond the 120 days to comply with the reporting covenants. It is management's intention to remedy noncompliance within the applicable six-month period. The minor shortfall in the bond reserves was corrected in February 2005.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS**

King County adopted an early implementation of GASB Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3, issued in March 2003. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

**Deposits**

The County maintains deposit relationships with several local commercial banks and thrift institutions in addition to its concentration bank.

All deposits not covered by the Federal Depositary Insurance Corporation (FDIC) are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositories within the state of up to 10 percent of all their public deposits. There is no current provision for PDPC to make additional *pro rata* assessments if needed to cover a loss. Therefore, in accordance with GASB, *Codification of Governmental Accounting and Financial Reporting Standards*, Section 150.110, PDPC protection is of the nature of collateral, not of insurance. Pledged securities under the PDPC collateral pool are held by the County's agent in the name of the County. Some large depositories hold public deposits in amounts in excess of the market value of the entire PDPC collateral pool. To the extent that uninsured public deposits of a financial institution exceed the PDPC's total value, equivalent proportions of the County's deposits in those institutions are exposed to custodial credit risk because they were uninsured and uncollateralized.

Custodial credit risk – deposits The custodial credit risk for deposits is the risk that, in the event of a bank failure, the County's deposits may not be recovered. As of December 31, 2004, the carrying amount of deposits for the Primary Government was \$460,164,931. The total bank balance was \$441,747,417 of which \$89,399,951 was exposed to custodial credit risk as uninsured and uncollateralized.

	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Uninsured and Uncollateralized</b>
Demand deposits	\$ 38,977,062	\$ 20,559,548	\$ 1,917,502
Certificates of deposit	421,187,869	421,187,869	87,482,449
Total deposits	<u>\$ 460,164,931</u>	<u>\$ 441,747,417</u>	<u>\$ 89,399,951</u>

Determination of these amounts is based on the conservative assumption that none of the excess public deposits were covered by FDIC insurance. Although such risk is recognized, the PDPC provides additional protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositories and optimizing collateralization requirements.

Foreign currency risk – deposits Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. As of December 31, 2004, \$9,346,559 of the Primary Government's bank balance consists of Japanese yen-denominated certificates of deposit with a final maturity date of July 1, 2005. These deposits were purchased by King

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 4 – CONTINUED**

County's Metro Transit Division as part of a required contract agreement in a crossborder transaction to lease buses for the County. The deposits are held to cover payments required under the lease that are denominated in yen, and as such do not present foreign currency risk to the County.

**Investments**

For investment purposes, the County pools the cash balances of county funds and participating component units, and allows for participation by other legally separate entities such as special districts, for which the County is *ex officio* treasurer, and public authorities. The King County Investment Pool (the Pool), administered by the King County Treasury Operations Section, is an external investment pool. The external portion of the Pool (the portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. It is county policy to invest all County funds in the Pool. All non-County participation in the Pool is voluntary.

Types of Investments State statutes authorize King County to invest in savings or time accounts in designated qualified public depositories or in certificates, notes, or bonds of the United States. The County is also authorized to invest in other obligations of the United States or its agencies or of any corporation wholly owned by the government of the United States. Statutes also authorize the County to invest in bankers' acceptances purchased on the secondary market, in federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation or the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system. The County can also invest in commercial paper within the policies established by the State Investment Board; debt instruments of banking institutions, local and state general obligations, and revenue bonds issued by Washington State governments that are rated at least "A" by a nationally recognized rating agency.

The County is authorized to enter into repurchase and reverse repurchase agreements. County investment policies require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement for investment terms of less than 30 days, and 105 percent for terms longer than 30 days. Repurchase agreements in excess of 60 days and reverse repurchase agreements exceeding 180 days are not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions. The County has not entered into yield maintenance repurchase agreements.

The County voluntarily invests in the Washington State Treasurer's Local Government Investment Pool (LGIP). The amount is carried at cost, which approximates fair value. The LGIP is a 2a7-like pool that is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office. The LGIP also contracts for an annual outside independent audit.

Derivatives The County operates under the GASB's *Codification*, Section 2300.601, definition of derivatives and similar transactions. During the year, the County did not buy, sell, or hold any derivative or similar instrument except for certain US agency collateralized mortgage obligations securities purchased by the King County Investment Pool to enhance investment yield. Although these securities are sensitive to early prepayments by mortgagees, usually resulting from a

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 4 – CONTINUED**

decline in interest rates, County policies are in place to ensure that only the lowest risk securities of this type are acquired.

Reverse Repurchase Agreements Statutes permit the County Investment Pool to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. County policy prohibits the use of these agreements as a borrowing mechanism. The investments under reverse repurchase agreements represent the collateral securities transferred to the lender in exchange for the cash received and used to purchase other securities with the same maturities as the collateral securities, resulting in a matched position.

The Pool has outstanding reverse repurchase agreements at December 31, 2004. The assets and liabilities related to the Investment Pool-owned reverse repurchase agreements were allocated to the individual Pool participants based on their equity in the Pool as of December 31, 2004. The liability is reported as obligations under reverse repurchase agreements and the assets are reflected as an increase in cash equivalents in the balance sheets of funds that participate in the internal portion of the Investment Pool. For funds that participate in the external portion of the Investment Pool, the assets and liabilities are reported in the "Combining Statement of Net Assets" of the Investment Trust Funds.

Reverse repurchase agreements are subject to credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Should the dealers default on their obligation to resell these securities to the County, the County would be faced with an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The credit risk exposure at year-end was \$1,314,565 on reverse repurchase agreements in the Investment Pool.

External Investment Pool The King County Investment Pool is not registered with the SEC as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Chief Budget Officer, and Director of the Finance and Business Operations Division. All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

All securities are reported at fair value. Fair value reports are prepared monthly and are distributed to all Pool participants. Fair value pricing is provided by the County's security safekeeping bank. If a security is not priced by the County's safekeeping bank, prices are obtained from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on: (1) realized investment gains and losses calculated on an amortized cost basis; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon investment fee. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. The total difference between fair values of the investments in the Pool and the values distributed to the Pool participants using the amortized

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 4 – CONTINUED**

cost method described above is reported in the equity section of the statement of net assets as undistributed and unrealized gains.

The schedule below shows the types of investments, the average interest rate, and the effective duration limits of the King County Investment Pool as of December 31, 2004. The change in the fair value of the total investments for the reporting entity during 2004, after considering purchases, sales and maturities, resulted in a markdown from cost of \$8.95 million. The Primary Government has a balance in the Investment Pool, excluding the equity in the component units, of \$2,617,428,726. There were no losses incurred during the period as a result of default by counterparties to deposit or investment transactions. During the period, there were no known violations of legal or contractual provisions for deposits and investments.

**King County Investment Pool**

<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>	<b><u>Principal</u></b>	<b><u>Average Interest Rate</u></b>	<b><u>Effective Duration (Yrs)</u></b>
Savings Accounts	\$ 160,209,243	\$ 160,209,243	2.35%	0.003
Certificates of Deposit	275,000,000	275,000,000	2.52%	0.465
Repurchase Agreements	398,318,750	398,318,750	2.38%	0.015
Bank Notes	20,056,000	20,000,000	7.12%	0.063
Bank Discount Notes	149,865,000	150,000,000	2.29%	0.038
Commercial Paper	815,009,546	816,298,000	2.31%	0.076
Taxable Municipal Notes	80,628,770	81,600,000	2.90%	1.802
Taxable Municipal Zero Coupon Notes	46,458,636	52,050,000	3.27%	2.723
US Treasury Notes	420,556,557	425,000,000	2.24%	1.524
US Agency Notes	599,715,620	601,640,000	3.24%	1.053
US Agency Discount Notes	114,885,000	115,000,000	2.30%	0.052
US Agency Collateralized Mortgage Obligations	248,192,499	246,158,057	4.65%	2.220
State Treasurer's Investment Pool	27,358	27,358	2.07%	0.003
Totals	<u>\$ 3,328,922,979</u>	<u>\$ 3,341,301,408</u>	<u>2.72%</u>	<u>0.692</u>

**Interest rate risk – Investments** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The Pool is managed as two subportfolios: the liquidity portfolio and the core portfolio. The liquidity portfolio average maturity cannot exceed 120 days and is intended to meet the County's short-term liquidity requirements. The total balance of the liquidity portfolio must be at least 15 percent of the total Investment Pool. The core portfolio is managed similar to a short-term fixed-income fund. The average duration of the core portfolio is currently restricted to a range of one and one-quarter to three and one-quarter years. Securities in the core portfolio cannot have an average life greater than five years at purchase. Based on historical and forecasted cash flows, the EFC established the maximum amount that can be invested in the core portfolio. At year-end, this limit was \$2.2 billion and the County was in compliance with this policy. As of December 31, 2004, the combined effective duration of the liquidity and core portfolios was 0.692 years.

**Credit risk of Debt Securities** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Pool's policy limits the maximum amount that can be invested in various securities. Table 1 summarizes the Pool's diversification policy and Table 2 displays the credit quality for all securities not backed by the full faith and credit of the United States. The credit quality distribution is categorized to display the greatest degree of credit risk

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 4 – CONTINUED**

as rated by Standard and Poor's, Moody's, or Fitch. For example, a security rated "AAA" by one rating agency and "AA" by another would be listed as "AA" in Table 2.

Table 1.

**OVERVIEW OF KING COUNTY'S INVESTMENT POOL'S POLICIES TO LIMIT INTEREST RATE & CREDIT RISK**

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Security Type Limit</u>	<u>Single Issuer Limit</u>	<u>Minimum Credit Rating</u>
US Treasury	5 Years	100%	None	N/A
US Federal Agency	5 Years	50%	50%	N/A
US Federal Agency MBS	5 Year WAL	25%	25%	N/A
Certificates of Deposit	5 Years	15%	5%	PDPC <sup>(1)</sup>
Municipals Securities <sup>(2)</sup>	5 Years	20%	5%	A <sup>(3)</sup>
Bank Securities	5 Years	20%	5%	A <sup>(3)</sup>
Repurchase Agreements	60 Days <sup>(4)</sup>	40%	10%	Collateral
Commercial Paper	180 Days	25%	5%	A1/P1 <sup>(5)</sup>
Bankers Acceptances	180 Days	25%	5%	Top 50 <sup>(6)</sup>
State LGIP <sup>(7)</sup>	N/A	None	None	N/A

(1) Institution must be a Washington State depository. Treasurers can deposit up to 100% of bank's net worth.

(2) Washington state issuers: general obligations and revenue bonds. Other states: only general obligation bonds.

(3) Must be rated "A" or better by two rating agencies.

(4) 102% collateralized, over 30 days 105%.

(5) Must be rated in top credit category by at least two rating agencies. Maturities > 100 days must have "AA" long-term rating.

(6) Bankers' acceptances can only be purchased from the 50 largest banks in the world by asset size.

(7) The state investment pool (LGIP) is a money market-like fund managed by the State Treasurer's Office.

Table 2.

**Credit Quality Distribution**

<u>Investment Type</u>	<u>AAA or A-1</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>	<u>Total</u>
Repurchase Agreements	\$ 398,318,750	\$ -	\$ -	\$ -	\$ 398,318,750
Bank Discount Notes	149,865,000	-	-	-	149,865,000
Commercial Paper	815,009,546	-	-	-	815,009,546
US Agency Discount Notes	114,885,000	-	-	-	114,885,000
Bank Notes	20,056,000	-	-	-	20,056,000
Taxable Municipal Notes	33,648,178	5,081,440	41,899,152	-	80,628,770
Taxable Municipal Zero Coupon Notes	46,458,636	-	-	-	46,458,636
US Agency Notes	599,715,620	-	-	-	599,715,620
US Agency Collateralized					
Mortgage Obligations	246,076,294	-	-	-	246,076,294
State Treasurer's Investment Pool	-	-	-	27,358	27,358
<b>TOTAL</b>	<b>\$ 2,424,033,024</b>	<b>\$ 5,081,440</b>	<b>\$ 41,899,152</b>	<b>\$ 27,358</b>	<b>\$ 2,471,040,974</b>

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end the Pool had concentrations greater than 5 percent of the total investment pool in the following issuers: Federal National Mortgage Association – 14%, Federal Home Loan Mortgage Corporation – 8%, and Goldman, Sachs & Co. – 10%. The concentration of credit risk with Goldman, Sachs & Co. resulted from the County's repurchase agreements; this exposure was offset by US agency securities pledged to the County's tri-party custodian bank by Goldman, Sachs & Co., valued at 102 percent of the County's exposure.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 4 – CONTINUED**

*Custodial credit risk – Investments* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. By County policy, all security transactions, including repurchase agreements, are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party bank.

The King County Investment Pool's Condensed Statement of Net Assets and Changes in Net Assets as of December 31, 2004, are as follows:

<b><u>Condensed Statement of Net Assets</u></b>	
Assets	\$ 3,335,303,729
Less: Liabilities	(101,222,146)
Net assets held in trust for pool participants	<u>\$ 3,234,081,583</u>
Equity of internal pool participants	\$ 1,530,905,769
Equity of external pool participants	1,703,175,814
Total equity	<u>\$ 3,234,081,583</u>
<b><u>Condensed Statement of Changes in Net Assets</u></b>	
Net assets at January 1, 2004	\$ 3,256,513,772
Net change in investments by pool participants	(22,432,189)
Net assets at December 31, 2004	<u>\$ 3,234,081,583</u>

**Individual Investment Accounts**

King County also purchases individual investments for other legally separate entities, such as special districts and public authorities, that are not part of the financial reporting entity. Net assets in these individual investment accounts are reported in a separate Investment Trust Fund in the Fiduciary Funds section.



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 4 – CONTINUED****Component Units**

Harborview Medical Center (HMC) Harborview Medical Center (HMC) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit Risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, HMC's deposits may not be recovered. HMC has equity in the Pool – Certificates of Deposit (reported as cash equivalents at June 30, 2004) – and maintains demand deposit accounts in various banks (insured up to \$100,000 per bank). As of June 30, 2004, \$5,626,651 of HMC's bank balance of \$213,686,623 was exposed to custodial credit risk as uninsured and uncollateralized. The carrying amount of total deposits was \$212,730,653.

**Harborview Medical Center (HMC)  
As of June 30, 2004**

	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Uninsured and Uncollateralized</b>
Equity in Investment Pool -			
Certificates of Deposit	\$ 211,047,420	\$ 211,488,793	\$ 5,392,964
Cash in other banks	1,683,233	2,197,830	233,687
Totals	<u>\$ 212,730,653</u>	<u>\$ 213,686,623</u>	<u>\$ 5,626,651</u>

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The Washington State Major League Baseball Stadium Public Facilities District (PFD) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial Credit Risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, PFD's deposits may not be recovered. The PFD has equity in the Pool – Certificates of Deposit (reported as cash equivalents at December 31, 2004) – and maintains demand deposit accounts in various banks (insured up to \$100,000 per bank). As of December 31, 2004, \$474,526 of the PFD's bank balance of \$19,918,208 was exposed to custodial credit risk as uninsured and uncollateralized. The carrying amount of total deposits was \$19,918,208.

**Washington State Major League Baseball Stadium Public Facilities Districts (PFD)  
As of December 31, 2004**

	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Uninsured and Uncollateralized</b>
Equity in Investment Pool -			
Certificates of Deposit	\$ 19,127,522	\$ 19,127,522	\$ 474,526
Cash in other banks	790,686	790,686	-
Totals	<u>\$ 19,918,208</u>	<u>\$ 19,918,208</u>	<u>\$ 474,526</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 4 – CONTINUED**Cultural Development Authority of King County (CDA)

The Cultural Development Authority of King County (CDA), dba 4Culture, does not participate in the County's investment pool. The CDA has an Investment Policy to guide the management of its assets and ensure that all investment activity is within the regulations established by State and County Code. At December 31, 2004, all CDA investments were in compliance with its investment policy.

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the CDA manages its exposure to interest rates risk by setting maturity and effective duration limits for its portfolio. As of December 31, 2004, the combined weighted average effective duration of the CDA's portfolio was 2.90 years.

Credit risk and Concentration of credit risk Credit risk is the risk that an issuer will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the CDA's investment in a single issuer. At December 31, 2004, all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AAA." At December 31, 2004, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: Goldman Sachs Federal Money Market Fund – 36% (Invested 100% in U.S Treasury Obligations and U.S. Government Securities), US Treasury Obligations – 33%, Federal Home Loan Bank – 14%, Federal National Mortgage Association – 10%, and Federal Home Loan Mortgage Corporation – 7%.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 5 – PROPERTY TAXATION****Taxing Powers**

The County is authorized to levy both "regular" property taxes and "excess" property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose "excess" property taxes that are not subject to limitation when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the turnout is not less than 24 percent of the number who voted at the last County general election. Excess levies may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

*Maximum Rate Limitations.* The County may levy regular property taxes for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to \$1.80 per \$1,000 of assessed value; the County levied \$1.08329 per \$1,000 in 2004. The road district purposes levy, which is levied in unincorporated areas of the County for road construction and maintenance and other County services provided in the unincorporated areas, is limited to \$2.25 per \$1,000; the County levied \$1.79422 per \$1,000 in 2004. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of \$2.475 per \$1,000 of assessed value if the total combined levies for both general and road purposes do not exceed \$4.05 per \$1,000 and if no other taxing district has its levy reduced as a result of the increased County levy (RCW 84.52.043).

The \$1.80 per \$1,000 limitation on the general purposes levy is exclusive of the following regular property taxes: (1) a voted levy for emergency medical services, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.069); (2) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.105, however, the County has not sought approval from voters for this levy); and (3) a non-voted levy for conservation futures, limited to \$0.0625 per \$1,000 (authorized by RCW 84.34.230).

In November 2001 voters approved a six-year emergency medical services property tax at a maximum rate of \$0.25 per \$1,000 beginning in the 2002 tax year. The County currently is levying \$0.05922 per \$1,000 for conservation futures. In 2000 voters in the County approved a five-year temporary lid lift to finance an automated fingerprint identification system. This five-year levy began in 2001; the current levy rate is \$0.05050 per \$1,000.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 5 – CONTINUED**

In May 2003 voters approved a County-wide four-year temporary lid lift for Regional and Rural Parks at a rate not to exceed \$0.049 per \$1,000.

*One Percent Aggregate Regular Property Tax Levy Limitation.* Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or \$10.00 per \$1,000) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050.

*\$5.90/\$1,000 Aggregate Regular Property Tax Levy Limitation.* Within the one percent limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per \$1,000 of assessed value (or 0.59%) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low income households, and acquiring conservation futures.

If aggregate regular property tax levies exceed the one percent or \$5.90 per \$1,000 limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010) to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

*Regular Property Tax Increase Limitation.* The regular property tax increase limitation (chapter 84.55 RCW), as amended by Ch. 1, Laws of 2002 (the "Property Tax Act"), limits the total dollar amounts of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the lesser of 101 percent or 100 percent plus inflation, but if the inflation rate is less than one percent, the limit factor can be increased to 101 percent, if approved by a majority plus one vote of the governing body of the municipality, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the municipality upon a finding of substantial need and is also approved by the voters at a general or special election within the municipality. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described under "Maximum Rate Limitations." The approval of a majority of the voters would be required for the limit factor to be increased. The new limit factor will be effective for taxes collected in the following year only.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as "banked" levy capacity.

With a majority vote of its electors, a taxing district may levy for the following year, within the statutory rate limitations described above, more than what otherwise would be allowed by the tax increase limitations, as allowed by RCW 84.55.050. This is known as a "levy lid lift," which has the effect of increasing the jurisdiction's levy "base" when calculating permitted levy increase in subsequent years. The new base can apply for a limited or unlimited period, except that if

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 5 – CONTINUED**

the levy lid lift was approved for the purpose of paying debt service on bonds, the new base can apply for no more than nine years. After the expiration of any limited purpose or limited duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) which exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy.

**Property Tax Calendar**

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

**Tax Collection Procedures**

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the County Assessor (the "Assessor") based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year (except that one-half of real property taxes may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. The County's lien on personal property taxes levied by the County Council before the filing of federal tax liens is senior to such federal tax liens. In all other respects, and subject to the possible "Homestead Exemption" described below, the lien for property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (chapter 6.13 RCW) gives the occupying homeowner a right to retain the first \$40,000 of proceeds of the forced

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 5 – CONTINUED**

sale of a family residency or other “homestead” property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the Homestead Exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

**Assessed Valuation Determination**

The Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year the County Council receives the Assessor's final certificate of assessed value of property within the County. The taxes payable in the following year are based on this assessed valuation.

**Accounting for Property Taxes Receivable**

In the governmental funds, property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues. For the government-wide financial statements, the deferred revenue related to the current period, net of the allowance for uncollectible property taxes, is reclassified to revenue.

**Allocation of Tax Levies**

The following table compares the allocation of the 2004 and 2003 countywide, Emergency Medical Services (EMS), and unincorporated County tax levies by fund, showing for each year the original tax levy and levy rate. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2004 countywide assessed valuation was \$235,834,254,423, an increase of \$10.8 billion from 2003; the assessed valuation for the unincorporated area levy was \$36,163,188,224, an increase of \$1.9 billion from 2003.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 5 – CONTINUED****ALLOCATION OF 2004 AND 2003 TAX LEVIES**

	<b>2004 Original Taxes Levied (in thousands)</b>	<b>2004 Levy Rate (per thousand)</b>	<b>2003 Original Taxes Levied (in thousands)</b>	<b>2003 Levy Rate (per thousand)</b>
Countywide Levy Assessed Valuation: \$235,834,254,423 <sup>(a)</sup>				
Items Within Operating Levy <sup>(b)</sup>				
General Fund	\$ 233,119	\$ 0.99253	\$ 223,968	\$ 0.99968
River Improvements	2,499	0.01064	2,429	0.01084
Veterans' Relief	2,114	0.00900	2,054	0.00917
Human Services	4,697	0.02000	4,566	0.02038
Intercounty River Improvement	49	0.00021	49	0.00022
Limited G.O. Bonds Debt Service	11,959	0.05091	14,621	0.06525
Automated Fingerprint Identification System <sup>(c)</sup>	11,861	0.05050	10,826	0.04832
Park Levy <sup>(d)</sup>	11,504	0.04900		
Total Operating Levy	<u>277,802</u>	<u>1.18279</u>	<u>258,513</u>	<u>1.15386</u>
Conservation Futures Levy <sup>(e)</sup>				
Conservation Futures Levy	8,232	0.03505	7,467	0.03333
Farmland and Park Debt Service	5,677	0.02417	5,135	0.02292
Total Conservation Futures Levy	<u>13,909</u>	<u>0.05922</u>	<u>12,602</u>	<u>0.05625</u>
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	44,144	0.18945	30,985	0.13937
Total Countywide Levy	<u>335,855</u>	<u>1.43146</u>	<u>302,100</u>	<u>1.34948</u>
EMS Levy Assessed Valuation: \$151,896,158,785 <sup>(a)(f)</sup>	35,897	0.23717	34,847	0.24143
Unincorporated County Levy Assessed Valuation: \$36,163,188,224 <sup>(a)(g)</sup>				
County Road Fund	64,603	\$ 1.79422	59,555	\$ 1.74490
Total County Tax Levies	<u>\$ 436,355</u>		<u>\$ 396,502</u>	

(a) Assessed valuation for taxes payable in 2004.

(b) The operating levy tax rate is statutorily limited to \$1.80 per \$1,000 of assessed valuation.

(c) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for five years beginning in 2001 at a levy rate of not more than \$0.05784 per \$1,000 of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.

(d) The Park Levy is a regular property tax to be assessed for four years beginning in 2004 at a levy rate of not more than \$0.049 per \$1,000 of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.

(e) The Conservation Futures levy tax rate is statutorily limited to \$0.0625 per \$1,000 of assessed valuation.

(f) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle. The levy was approved by the voters of King County for a six-year period with collection beginning in 2002.

(g) The tax rate is statutorily limited to a maximum of \$2.25 per \$1,000 of assessed valuation.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 6 – CAPITAL ASSETS****Primary Government**

The following is a summary of changes in capital assets for the King County Primary Government:

**CHANGES IN CAPITAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Balance 01/01/04</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/04</b>
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 590,737,560	\$ 66,947,790	\$ (21,942,315)	\$ 635,743,035
Infrastructure	714,003,704	101,340,559	(14,525,945)	800,818,318
Work in progress	117,811,899	47,314,912	(113,708,091)	51,418,720
Total capital assets not being depreciated	<u>1,422,553,163</u>	<u>215,603,261</u>	<u>(150,176,351)</u>	<u>1,487,980,073</u>
Capital assets being depreciated				
Buildings	502,128,877	160,699,871	(30,976,830)	631,851,918
Improvements other than buildings	1,189,149	16,576,674	-	17,765,823
Equipment	202,459,022	23,301,535	(23,639,432)	202,121,125
Total capital assets being depreciated	<u>705,777,048</u>	<u>200,578,080</u>	<u>(54,616,262)</u>	<u>851,738,866</u>
Less accumulated depreciation for:				
Buildings and improvements	(158,765,116)	(17,042,540)	8,501,889	(167,305,767)
Equipment	(112,517,049)	(19,567,146)	13,866,729	(118,217,466)
Total capital assets being depreciated - net	<u>434,494,883</u>	<u>163,968,394</u>	<u>(32,247,644)</u>	<u>566,215,633</u>
Governmental activities capital assets - net	<u><u>\$ 1,857,048,046</u></u>	<u><u>\$ 379,571,655</u></u>	<u><u>\$ (182,423,995)</u></u>	<u><u>\$ 2,054,195,706</u></u>
<b>Business-type Activities</b>				
Capital assets not being depreciated				
Land	\$ 225,514,722	\$ 17,906,418	\$ (280,741)	\$ 243,140,399
Work in progress	629,257,432	489,846,964	(334,036,396)	785,068,000
Total capital assets not being depreciated	<u>854,772,154</u>	<u>507,753,382</u>	<u>(334,317,137)</u>	<u>1,028,208,399</u>
Capital assets being depreciated				
Buildings	755,717,357	38,443,529	(812,355)	793,348,531
Improvements other than buildings	1,466,075,778	59,251,680	(1,198,397)	1,524,129,061
Equipment	1,660,271,868	208,669,929	(39,435,160)	1,829,506,637
Total capital assets being depreciated	<u>3,882,065,003</u>	<u>306,365,138</u>	<u>(41,445,912)</u>	<u>4,146,984,229</u>
Less accumulated depreciation for:				
Buildings and improvements	(839,719,241)	(68,928,933)	1,740,556	(906,907,618)
Equipment	(929,187,847)	(109,644,262)	26,506,158	(1,012,325,951)
Total capital assets being depreciated - net	<u>2,113,157,915</u>	<u>127,791,943</u>	<u>(13,199,198)</u>	<u>2,227,750,660</u>
Business-type activities capital assets - net	<u><u>\$ 2,967,930,069</u></u>	<u><u>\$ 635,545,325</u></u>	<u><u>\$ (347,516,335)</u></u>	<u><u>\$ 3,255,959,059</u></u>



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 6 – CONTINUED**

All but one of the County's internal service funds are classified under governmental activities for government-wide reporting. The Wastewater Equipment Rental Fund's capital assets and depreciation are reported under business-type activities.

**Depreciation Expense**

Depreciation expense was charged to functions of the Primary Government as follows:

<b>Governmental Activities</b>	
General government services	\$ 9,268,678
Law, safety and justice	12,680,072
Physical environment	371,977
Transportation	1,922,684
Economic environment	240,908
Mental and physical health	2,340,821
Culture and recreation	2,015,112
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	7,769,434
Total depreciation expense – governmental activities	<u><u>\$ 36,609,686</u></u>
<b>Business-type Activities</b>	
Water	\$ 88,421,735
Transit	71,025,539
Solid Waste	6,656,782
Airport	1,612,904
Radio Communications	2,026,333
Institutional Network	454,617
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	480,279
Total depreciation expense – business-type activities	<u><u>\$ 170,678,189</u></u>

**Infrastructure**

Infrastructure capital assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Included in King County's infrastructure is the roads and bridges network maintained by the Roads Division of the Department of Transportation. The roads and bridges network infrastructure is reported using the modified approach, i.e., depreciation is not recorded. The cost of preserving and maintaining the network of infrastructure over an indefinite period of time essentially substitutes for the depreciation factor. A government using the modified approach is required under GASB Statement No. 34 to demonstrate that it is maintaining its infrastructure at the acceptable, predetermined condition level by disclosing trend data on condition assessments and planned versus actual preservation costs. An important consequence of opting for the modified approach is that costs incurred to extend the asset's

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 6 – CONTINUED**

useful life (which are normally capitalized under the depreciation method) are now treated as expenditures for preservation.

**Roads and Bridges Infrastructure Valuation**

The roads and bridges infrastructure network acquired or constructed prior to 2002 is valued at estimated historical cost. Base year estimates of 2001 replacement costs for all existing roads and 1988 replacement costs for all bridges were obtained using standard costing methods with the resultant values being deflated to the acquisition year (or estimated acquisition year, where the actual year was unknown), using the Engineering News Record Construction Cost Index. Retroactive reporting of traffic control elements is based on replacement cost.

**Land**

Land also includes right-of-way and farmland development rights.

**Right-of-Way Assets**

Estimated historical costs for these assets were obtained by estimating replacement costs at 2001 using land assessed valuation data and then deflating the resultant values to the acquisition year (or estimated acquisition year, where the actual year is unknown), using assessed land value indices from the King County Assessor's Office.

**Farmland Development Rights**

The Farmland Preservation Program was established to preserve, protect, and enhance agricultural lands and open spaces. Under this program the County has acquired farmland development rights for over 12,500 acres. "Development rights" are the rights to develop land for any uses other than farming or open space. The owner who sells development rights sells only a part of an owner's property rights and retains all other ownership rights.

**Real Property Under Capital Lease**

King County land and buildings include the capitalized costs of the King Street Center (\$78.2 million), the Patricia Bracelin Steel Memorial Building (\$62.5 million), and the Issaquah District Court (\$5.9 million). These properties are legally owned by private property management companies who are leasing the buildings to the County under terms which are in-substance capital leases. The rental payments collected include the monthly debt service costs of the privately issued bonds used to construct the buildings. The lease contracts provide for a bargain purchase option at the end of the lease term. The capital lease obligations are reported as government-wide long-term liabilities.

**Artwork**

Artwork that meets the threshold of \$1,000 is capitalized under Furniture, machinery and equipment.

**Construction Commitments**

Project commitment is defined as authorized and planned expenditures for the next fiscal year. These commitments, totaling about \$1.7 billion, will be funded from existing restricted net assets in proprietary funds of \$1.3 billion and existing capital projects fund undesignated fund

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 6 – CONTINUED**

balances of \$400.0 million. The balance is anticipated to come from future borrowing, federal and state grants, and contributions from other funds.

Proprietary Funds

Public Transportation Enterprise – \$240.2 million is committed to maintenance of existing infrastructure, replacement of aging fleet, and expansion of transit base capacity.

Water Quality Enterprise – \$977.9 million is committed to constructing a new major wastewater treatment plant and ensuring the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities.

Other Enterprise – \$75.1 million is committed to improving the County's solid waste facilities and \$32.6 million is committed to improvements at the King County International Airport.

Capital Projects Funds

\$400.6 million is committed to the acquisition or development of capital improvements, including new building construction, building improvements, seismic upgrades, energy conservation, acquisition of open space and preservation easements, road construction and maintenance, improvements within the surface water management program, and repair and replacement of general government facilities.

**Discretely presented component units**Harborview Medical Center (HMC)

Capital assets activity for HMC for their fiscal year ended June 30, 2004, was as follows:

	<b>Balance 07/01/03</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 06/30/04</b>
Capital assets not being depreciated:				
Land	\$ 1,585,972	\$ -	\$ -	\$ 1,585,972
Work in progress	17,329,724	7,131,229	(1,982,868)	22,478,085
Total capital assets not being depreciated	<u>18,915,696</u>	<u>7,131,229</u>	<u>(1,982,868)</u>	<u>24,064,057</u>
Capital assets being depreciated:				
Buildings	185,307,391	1,447,225	-	186,754,616
Improvements other than buildings	1,363,313	-	-	1,363,313
Equipment	244,358,415	21,349,544	(2,299,995)	263,407,964
Total capital assets being depreciated	<u>431,029,119</u>	<u>22,796,769</u>	<u>(2,299,995)</u>	<u>451,525,893</u>
Less accumulated depreciation for:				
Buildings	(66,591,472)	(6,352,862)	-	(72,944,334)
Improvements other than buildings	(652,079)	(62,762)	-	(714,841)
Equipment	(136,844,914)	(17,961,751)	1,608,648	(153,198,017)
Total capital assets being depreciated - net	<u>226,940,654</u>	<u>(1,580,606)</u>	<u>(691,347)</u>	<u>224,668,701</u>
HMC capital assets, net	<u><u>\$ 245,856,350</u></u>	<u><u>\$ 5,550,623</u></u>	<u><u>\$ (2,674,215)</u></u>	<u><u>\$ 248,732,758</u></u>

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 6 – CONTINUED**

In addition, HMC owns property that is held for future use which at June 30, 2004, consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 2,717,798	\$ -
Buildings	1,898,973	(711,357)
Improvements other than buildings	26,344	(26,344)
Total	<u>\$ 4,643,115</u>	<u>\$ (737,701)</u>

A major construction program is currently ongoing at the Harborview Medical Center involving upgrades to existing hospital buildings, demolition of seismically unsound older buildings, and construction of new and replacement facilities. The program, started in 2001, is being funded by \$193.1 million in bonds and \$56.0 million in contributions from Harborview.

Washington State Major League Baseball Stadium Public Facilities District (WSMLB)

Capital assets activity for the WSMLB for the period ended December 31, 2004, was as follows:

	<u>Balance 01/01/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/04</u>
Capital assets not being depreciated:				
Land	\$ 38,498,454	\$ -	\$ -	\$ 38,498,454
Capital assets being depreciated:				
Baseball stadium	488,841,352	250,000	-	489,091,352
Improvements other than buildings	10,931,682	2,509,926	-	13,441,608
Equipment	46,150	11,616	-	57,766
Total capital assets being depreciated	<u>499,819,184</u>	<u>2,771,542</u>	<u>-0-</u>	<u>502,590,726</u>
Less accumulated depreciation for:				
Baseball stadium	(55,089,176)	(12,500,576)	-	(67,589,752)
Improvements other than buildings	(273,292)	(62,748)	-	(336,040)
Equipment	(45,056)	(2,616)	-	(47,672)
Total capital assets being depreciated - net	<u>444,411,660</u>	<u>(9,794,398)</u>	<u>-</u>	<u>434,617,262</u>
WSMLB capital assets, net	<u>\$ 482,910,114</u>	<u>\$ (9,794,398)</u>	<u>\$ -0-</u>	<u>\$ 473,115,716</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 7 – RESTRICTED ASSETS**

Within the current and noncurrent assets sections of the Statement of Net Assets are amounts that are restricted as to their use. The restricted assets for these funds are comprised of the following:

**Major and Nonmajor Enterprise Funds**

<u>Public Transportation</u> – restricted for future construction projects (\$160,596,948) and debt service (\$10,723,570).	\$ 171,320,518
<u>Water Quality Enterprise</u> – restricted for future construction projects (\$6,680,551), debt service (\$138,295,406) and reserves and obligations (\$23,059,832).	<u>168,035,789</u>
Total Major Enterprise restricted assets.	<u>\$ 339,356,307</u>
<u>Airport</u> – restricted for future construction projects and expansion of the King County International Airport.	\$ 15,897,225
<u>Radio Communications</u> – restricted for future construction projects.	1,540,121
<u>Sewer Utility</u> – enterprise bond restrictions.	202,503
<u>Solid Waste</u> – restricted for landfill closure and post-closure care costs.	<u>68,913,791</u>
Total Nonmajor Enterprise restricted assets.	<u>\$ 86,553,640</u>

**Component Unit – Harborview Medical Center (HMC)**

<u>HMC Construction Fund</u> – consists of money from various General Obligation Bond issues that are restricted for construction, seismic, public safety and other improvements, and furnishings of HMC buildings.	\$ 146,923,163
<u>HMC Special Purpose Fund</u> – consists of restricted donations, gifts, and bequests from various sources for specific uses.	6,502,619
<u>HMC Operating Fund</u> – consists of resources that are board-designated for specific purposes, including \$2,232,688 for planned capital and service component; \$958,913 for self-insurance fund; \$2,124,158 for commuter services; \$4,092,043 in net fixed assets held for future use; and \$587,370 for others.	9,995,172
<u>HMC Plant Fund</u> – consists of resources that are board-designated for building improvements, furnishings, and repair and replacement.	<u>15,162,765</u>
Total HMC restricted assets.	<u>\$ 178,583,719</u>

**Component Unit – Cultural Development Authority of King County (CDA)**

<u>Public Arts Projects Fund</u> – restricted for the 1 percent for public art programs operated for the benefit of King County.	\$ 4,078,507
<u>Cultural Grant Awards Fund</u> – restricted for arts and heritage cultural programs.	7,878,677
<u>Cultural Endowment Fund</u> – a long-term endowment for the benefit of the arts and heritage cultural programs.	<u>8,576,298</u>
Total CDA restricted assets.	<u>\$ 20,533,482</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 8 – DEFINED BENEFIT PENSION PLANS**

Substantially all full-time and qualifying part-time County employees participate in either the Public Employees' Retirement System (PERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), or the Seattle City Employees' Retirement System (SCERS). PERS and LEOFF are statewide local government retirement systems administered by the State of Washington's Department of Retirement Systems under cost-sharing, multiple-employer defined benefit and defined contribution retirement plans.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

Historical trend and other information regarding SCERS is presented in the Seattle City Employees' Retirement System annual financial report. A copy of this report may be obtained at: Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104.

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3****Plan Descriptions**

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. The PERS defined benefit retirement payments are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 8 – CONTINUED**

cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Statewide there are 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	65,362
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	20,001
Active Plan Members Vested	100,469
Active Plan Members Nonvested	<u>54,081</u>
Total	<u>239,913</u>

**Funding Policy**

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. The PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 8 – CONTINUED**

Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2004, were as follows:

	<b><u>PERS Plan 1</u></b>	<b><u>PERS Plan 2</u></b>	<b><u>PERS Plan 3</u></b>
Employer*	1.38%	1.38%	1.38%**
Employee	6.00%	1.18%	***

\* The employer rates include the employer administrative expense fee currently set at 0.19%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were:

	<b><u>PERS Plan 1</u></b>	<b><u>PERS Plan 2</u></b>	<b><u>PERS Plan 3</u></b>
2002	\$ 1,237,500	\$ 8,015,000	\$ 33,500
2003	1,073,600	7,352,200	561,600
2004	1,027,400	7,786,400	896,500

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)****Plan Descriptions**

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members. Effective January 1, 2003, firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if, while employed for the city, town, county, or district, the EMT's job was relocated to a fire department from another city, town, county, or district. LEOFF-defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 8 – CONTINUED**

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the 60 consecutive highest-paid service credit months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Statewide there are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	453
Active Plan Members Vested	11,548
Active Plan Members Nonvested	<u>4,003</u>
Total	<u>24,374</u>

**Funding Policy**

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 8 – CONTINUED**

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2004, were as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.19%	3.25%
Employee	0.00%	5.09%

\* The employer rates include the employer administrative expense fee currently set at 0.19%.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2002	\$ 6,500	\$ 1,234,600
2003	5,630	1,466,300
2004	4,120	1,622,200

**Seattle City Employees' Retirement System (SCERS)**

SCERS is a cost-sharing, multiple-employer retirement plan administered in accordance with chapter 4.36 of the Seattle Municipal Code. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. Employees of Public Transportation who are former employees of Seattle Transit are also covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this plan may retire after 30 years of service regardless of age; after age 52 with 20 years or more of service; after age 57 with ten or more years of service; and after age 62 with five or more years of service. Disability retirement is available after ten years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this plan is defined as the highest consecutive twenty-four months average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service. It ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan, which has no provision for a beneficiary and, at the member's death, stops all payments. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 8.03 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required employer contributions for the years 2002, 2003, and 2004 ending December 31 were \$852,000, \$818,100 and \$776,300, respectively.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 8 – CONTINUED****Component Unit – Harborview Medical Center (HMC)**

HMC personnel are University of Washington (UW) employees. HMC faculty and professional staff participate in the University of Washington Retirement Plan (UWRP), an IRC Section 403 (b) defined contribution retirement plan authorized by the Board of Regents. HMC staff participate in a plan authorized by the State of Washington Department of Retirement Systems (DRS). Plan participation is defined by position, with the majority of HMC employees enrolled in one of the 3 Public Employees' Retirement Systems (PERS) plans.

All plans include contributions by both employee and employer. Employee contributions are tax-deferred. Employer contributions are paid semimonthly by the UW in accordance with rates specified by the retirement systems.

**Component Unit – Washington State Major League Baseball (WSMLB) Stadium Public Facilities District (PFD)**

Employees of the District have the option of participating in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan. Employer contributions are paid by the District in accordance with rates specified by the individual plans. Total payroll covered by all systems for the year ended December 31, 2004, was \$28,576.

Employees are also able to select the Stadium PFD Retirement Plan as an alternative benefit plan to PERS. The Plan is designated as a profit-sharing plan in accordance with Section 401 (a) (27) (B) of the Internal Revenue Code. No contributions by participants are required or permitted other than authorized rollover contributions. All contributions to the plan vest immediately. Actual contributions made to the plan in 2004 were \$2,349.

**Component Unit – Cultural Development Authority of King County (CDA)**

All CDA personnel participate in the Public Employees' Retirement Systems (PERS). PERS is a statewide local government retirement system administered by the State of Washington's Department of Retirement Systems under cost-sharing, multiple-employer defined benefit public employee retirement systems.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 9 – POST-RETIREMENT HEALTHCARE BENEFITS**

In accordance with the Washington Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Act (chapter 41.26 RCW), the County provides certain healthcare benefits for retired full-time, fully compensated law enforcement officers who established membership in the LEOFF I retirement system on or before September 30, 1977. Substantially all of the County's law enforcement officers who established membership in the LEOFF I retirement system may become eligible for those benefits when they reach normal retirement age. The King County Sheriff's Office, in conjunction with the King County Disability Board, reimburses retired LEOFF I police officers for reasonable medical charges as described in the LEOFF Act. In 2004, 324 retirees received benefits under this act. As of December 31, 2004, there were 24 active officers with an average age of 57 who may become eligible for those benefits when they reach normal retirement age.

The cost of retiree healthcare benefits is recognized as an expenditure in the General Fund as claims are paid. For 2004 those costs total \$1,957,154, with an average cost per retiree of \$6,041.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 10 – RISK MANAGEMENT**

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability is accounted for in the funds with loss experience and as governmental long-term debt. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

**Insurance Fund**

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County, including those commonly covered by general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2004, is \$46,766,049.

The County purchases excess liability coverage that currently provides \$97.5 million in limits above a \$2.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials, errors and omissions, and Health Department professional malpractice exposures. The County must pay an additional \$1 million SIR either from a single large loss or a combination of losses above the \$2.5 million deductible. Effective June 1, 2004, the County renewed the property insurance policy. This policy has a blanket limit of \$1 billion above a \$100,000 per occurrence deductible and provides an overall earthquake sublimit of \$220 million. The previous policy had a blanket limit of \$700 million. The 2004 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to \$250 million.

In addition to its excess liability policy and property insurance policies, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of \$300 million; a liability policy to cover the police helicopter activities with liability limits of \$50 million per occurrence; and excess statutory coverage for the Workers' Compensation program over a \$2.5 million per occurrence SIR.

In the past three years, one occurrence has resulted in payments in excess of the self-insured retention of \$2.5 million. There has been one settlement in excess of the insurance coverage in the prior three years.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 10 – CONTINUED**

During 2004 there were some significant changes made in the County's insurance program. Effective May 1, 2004, the County selected a new insurance broker. In order to better assist the County agencies in the budget process, Risk Management has targeted April and October for the largest policy renewals. Renewing policies earlier in the year will allow better insurance cost projections for participating agencies to utilize their budgets. To maximize this opportunity, the County purchased many extended period policies of up to 18 months to effectively move renewal dates.

In 2004 the County experienced a significant decrease in premiums for excess liability insurance from \$4.563 million to \$3.641 million (on an annualized basis) for \$97.5 million in limits. The substantial decrease in premiums is attributable to increased stability in the insurance marketplace and reinsurance markets.

The County has also extensively reviewed and revised its marine policies to better address some new and expanding County exposures due mainly to the Homeland Security Act. The marine program now has limits of \$25 million in excess of \$5 million with additional coverage for sudden and accidental pollution, maritime employers liability, towers liability, and contingent charterers liability.

The County has increased funding for the self-insurance program commensurate with increases in estimated case reserve requirements and incurred-but-not-reported losses. The cash balance in the Insurance Fund has increased from \$2.1 million at December 31, 1985, to more than \$72 million at December 31, 2004. \$12.4 million of the \$72 million cash balance in the Insurance Fund has been designated for catastrophic loss reserves (see Note 15, "Restriction, Reserves, Designations, and Changes in Equity"). The catastrophic loss reserves are used to respond to large losses above the \$1 million limit.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. The changes in the Insurance Fund's claims liability in 2003 and 2004 were as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End-of-Year Liability</u>
2003	\$ 43,247,000	\$ 9,391,258	\$ (10,940,277)	\$ 41,697,981
2004	41,697,981	20,544,039	(15,475,971)	46,766,049

**Safety and Workers' Compensation Fund**

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 Revised Code of Washington (RCW), Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation and Water Quality internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 10 – CONTINUED**

self-insurance losses (reported and unreported) recorded in the financial statements is discounted at 5.0 percent, the County's average forecasted rate of return on investments. At December 31, 2004, the total discounted claim liability is \$49,246,934 and the undiscounted carrying amount of the claim liability is \$60,755,540.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective September 1, 2004, was decreased from \$5 million to \$2.5 million. There has been one settlement in excess of the insurance coverage in the prior three years.

Beginning in 2004, the Fund's claims liability is estimated by an independent actuary and discounted. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. Prior to 2004, the Fund's claim liability was estimated based on reserves for known claims plus a liability for incurred but unreported claims based on historical experience. The estimated claim liability was not discounted prior to 2004. Changes in the Safety and Workers' Compensation Fund's claims liability in 2003 and 2004 were:

	<b>Beginning of Year Liability</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>End-of-Year Liability</b>
2003	\$ 15,970,000	\$ 16,772,556	\$ (15,954,326)	\$ 16,788,230
2004	16,788,230	50,444,146	(17,985,442)	49,246,934

**Employee Benefits Program Fund**

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment, and long-term disability benefit programs, except for Public Safety LEOFF retiree medical benefits. There are five insured and two self-insured medical plans. Seventy-eight percent of County employees are insured through the two self-insured medical plans. The dental and vision plans are also self-insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims, expenses and premiums. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2004, is \$13,055,000.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2003 and 2004 were:

	<b>Beginning of Year Liability</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>End-of-Year Liability</b>
2003	\$ 11,127,133	\$ 90,965,941	\$ (88,901,074)	\$ 13,192,000
2004	13,192,000	100,563,501	(100,700,501)	13,055,000

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 10 – CONTINUED****Unemployment Liability**

The County has elected to retain the risk for unemployment compensation payable to former county employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of \$1,758,000 is recorded in governmental long-term debt for the estimated future claims liability for employees as of December 31, 2004.

Changes in governmental long-term debt liability for unemployment compensation in 2003 and 2004 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End-of-Year Liability</u>
2003	\$ 1,531,615	\$ 3,484,358	\$ (2,740,973)	\$ 2,275,000
2004	2,275,000	1,601,306	(2,118,306)	1,758,000

**Component Unit – Harborview Medical Center****Insurance Fund**

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2004, the UW did not carry commercial general liability coverage at levels below \$2 million per occurrence. The UW's philosophy, with respect to its self-insurance programs, is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund was approximately \$1,227,665 in the period July 1, 2002 to June 30, 2003, and \$1,285,430 in the period July 1, 2003 to June 30, 2004.

**Employee Benefits Program**

Eligible permanent employees of HMC receive the basic insurance benefits package that is purchased by the University of Washington through the Public Employees' Benefits Board (PEBB). HMC faculty and staff meeting PEBB eligibility rules receive this package of medical, dental, life, and long-term disability (LTD) insurance. In addition, there are optional employee-paid components to the life and LTD that HMC employees may elect.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensations for



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 10 – CONTINUED**

permanent partial and total disability, and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with the state law.

**Component Unit – WSMLBS Public Facilities District**

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. Excess liability coverage is in force at aggregate and per event limits of \$5 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$100,000 with separate overages for earthquake and flood losses.

The PFD also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.

**Component Unit – Cultural Development Authority of King County****Insurance Fund**

The Cultural Development Authority of King County (CDA), dba 4Culture, carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$103,000.

The CDA also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.

**Employee Benefits Program**

Employees of the CDA have a comprehensive benefits package through the Public Employees' Benefits Board (PEBB). The comprehensive package includes medical, dental, life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. The State of Washington Health Care Authority (HCA) is the administering authority. The CDA also offers the insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 11 – LEASES****Capital Leases**

King County has entered into agreements to purchase buildings, machinery, and equipment through capital lease and installment purchase agreements. Assets acquired and liabilities incurred through such agreements for governmental funds are accounted for in the Governmental Activities. Such assets and liabilities related to proprietary type funds are accounted for within the proprietary funds (Business-type Activities).

The following is a schedule of capital assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2004:

	<b>Capital Assets</b>		<b>Capital Leases Payable</b>	
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Land	\$ 21,787,606	\$ -	\$ -	\$ -
Building	124,867,394	4,880,562	141,950,000	3,754,139
Less depreciation	(12,055,540)	(428,415)	-	-
Subtotal	134,599,460	4,452,147	141,950,000	3,754,139
Machinery and equipment	760,972	124,512,423	309,349	9,346,560
Less depreciation	(400,908)	(73,426,864)	-	-
Subtotal	360,064	51,085,559	309,349	9,346,560
Totals	<u>\$ 134,959,524</u>	<u>\$ 55,537,706</u>	<u>\$ 142,259,349</u>	<u>\$ 13,100,699</u>

The following is a schedule, by year, of future minimum lease payments under capital lease and installment purchase agreements together with the present value of the net minimum lease payments as of December 31, 2004:

2005	\$ 9,544,543	\$ 9,782,399
2006	10,714,657	255,000
2007	10,624,257	255,000
2008	10,587,028	255,000
2009	10,584,440	255,000
2010-2014	52,934,498	1,275,000
2015-2019	52,930,958	1,275,000
2020-2024	50,527,307	1,275,000
2025-2029	31,661,876	1,275,000
2030-2033	8,777,000	403,750
Total minimum lease payments	248,886,564	16,306,149
Less: Amount representing interest	(106,627,215)	(3,205,450)
Present value of new minimum lease payments	<u>\$ 142,259,349</u>	<u>\$ 13,100,699</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 11 – CONTINUED****Operating Leases**

The County has numerous operating lease commitments for office space, equipment, radio towers, and railroad tracks. The Information and Telecommunications Services Fund leases computer hardware; these leases include maintenance agreements. Expenditures for the year ended December 31, 2004, for operating lease and rental agreements for office space, equipment, and other operating leases amount to \$28.3 million. The patterns of the future lease payment requirements are systematic and rational. Future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
2005	\$ 10,443,000	\$ 320,000	\$ 713,000	\$ 11,476,000
2006	9,311,000	265,000	587,000	10,163,000
2007	7,282,000	130,000	387,000	7,799,000
2008	4,010,000	5,000	273,000	4,288,000
2009	2,592,000	-	270,000	2,862,000
2010-2014	7,838,000	-	1,334,000	9,172,000
2015-2019	440,000	-	1,135,000	1,575,000
2020-2024	440,000	-	1,080,000	1,520,000
2025-2029	440,000	-	1,080,000	1,520,000
2030-2034	307,000	-	1,080,000	1,387,000
2035-2039	-	-	1,080,000	1,080,000
2040-2044	-	-	1,080,000	1,080,000
2045-2049	-	-	1,080,000	1,080,000
2050-2053	-	-	700,000	700,000

The County currently leases some of its property to various tenants under long-term, renewable, and noncancelable contracts. Under business-type activities, the King County Airport Enterprise leases out most of the buildings and grounds in the King County International Airport/Boeing Field complex to companies and government agencies in the aviation industry. Some land and building space devoted to governmental activities are also leased out under long-term operating leases.

The following schedule is an analysis of the County's investment in property under long-term, noncancelable operating leases as of December 31, 2004:

	<u>Governmental</u>	<u>Business-type</u>	
	<u>activities</u>	<u>Airport</u>	<u>Other</u>
Land	\$ 380,872	\$ 11,220,347	\$ -
Buildings	1,918,992	45,108,583	411,138
Less depreciation	(637,348)	(23,269,747)	(13,897)
Total cost of property under lease	<u>\$ 1,662,516</u>	<u>\$ 33,059,183</u>	<u>\$ 397,241</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 11 – CONTINUED**

The following is a schedule of minimum future lease receipts on noncancelable operating leases based on contract amounts and terms as of December 31, 2004:

Year	Governmental		Business-type		Total			
	Activities		Airport	Other				
2005	\$	2,113,559	\$	5,897,319	\$	338,951	\$	8,349,829
2006		1,983,399		5,886,638		258,951		8,128,988
2007		1,794,634		5,533,299		151,055		7,478,988
2008		1,617,107		5,182,459		-		6,799,566
2009		1,549,464		4,997,081		-		6,546,545
2010-2014		4,505,560		22,004,678		-		26,510,238
2015-2019		3,480,353		19,073,139		-		22,553,492

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 12 – LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS**

King County is legally responsible for closure and post-closure care costs associated with the County's solid waste landfills. Estimated costs of closure and post-closure care are recognized as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in current dollars. Actual cost may be different due to inflation, changes in technology, or changes in regulations.

State and federal laws and regulations require King County to place a final cover on its Cedar Hills Landfill site when the County stops accepting waste at this location. Performance of certain maintenance and monitoring functions are also required at the sites for 30 years following closure. Enumclaw, Hobart, Duvall, Vashon, and Cedar Falls landfills have been covered. Puyallup, Houghton, Bow Lake, First Northeast, and South Park are custodial landfills which were covered 30 or more years ago and are no longer subject to these laws and regulations.

Although closure and post-closure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these costs as an operating expense in each period. The expense is based on landfill capacity used as of each balance sheet date. The \$87.9 million reported as landfill closure and post-closure care liability at December 31, 2004, represents the cumulative amount reported to date based on the amount that each of the landfills has been filled to date as follows:

<u>Landfill</u>	<u>Percent Filled</u>	<u>Estimated Liability (in millions)</u>	<u>Estimated Remaining Liability (in millions)</u>	<u>Estimated Year of Closure</u>
Cedar Hills	74%	\$ 53.5	\$ 16.5	2012
Covered	100%	24.8		
Custodial	100%	9.6		

Although total tonnage at Cedar Hills Landfill increased in 2004, percent filled decreased from 75% in 2003 to 74% in 2004. This is due to an increase in the estimate for total landfill capacity.

The County is required by state and federal laws and regulations to make annual contributions to a reserve fund to finance closure and post-closure care. The County is in compliance with these requirements. As of December 31, 2004, cash and cash equivalents of \$33.4 million were held in the Landfill Reserve Fund. Cash and cash equivalents of \$24.9 million were held in the Landfill Post-closure Maintenance Fund, which is a fund designated for these purposes.

The County expects that future cost increases resulting from inflation will be covered by the interest income earned on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined (due to changes in technology or regulations), the County may need to increase future user fees or tax revenues.

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. Cash and cash equivalents total \$1.6 million in this fund. The related estimated liability for the custodial landfill costs is \$92,447. This estimate includes only those costs that are reasonable and quantifiable and for which schedules can be forecast.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – DEBT****Short-term debt instruments and liquidity**

King County has two short-term limited tax general obligation bond anticipation notes outstanding as of December 31, 2004. The County completed the sale of \$46.37 million bond anticipation notes, 2004A Notes and 2004B Notes on November 2, 2004. The 2004A Notes in the amount of \$20.0 million were issued to provide interim financing for the seismic retrofit of the County Courthouse, the integrated security and jail health project, and the Kent Pullen Regional Communications and Emergency Coordination Center. The 2004B Notes in the amount of \$26.37 million were issued to provide interim financing for the Juanita Woodland Open Space Acquisition Project and the Forestry and Nearshore Initiative Project. The County intends to issue replacement bond anticipation notes when both 2004A and 2004B Notes mature on November 1, 2005. On October 1, 2004, the County paid and retired \$80.0 million of limited tax general obligation bond anticipation notes, 2003A, with proceeds from the issuance of \$82.435 million of limited tax general obligation bonds, 2004B.

In addition, the County has \$100.0 million of commercial paper outstanding in the Water Quality Enterprise Fund. The commercial paper has maturities ranging from 19 to 59 days. At the time of initial issuance the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the enterprise. Repayment of the debt will be made from operating revenues.

A summary of changes in short-term debt as of December 31, 2004, is provided by the following schedule:

**CHANGES IN SHORT-TERM DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance 01/01/04	Additions	Reductions	Balance 12/31/04
<b>Governmental activities:</b>				
Limited tax GO bond anticipation notes	\$ 80,000,000	\$ 46,370,000	\$ (80,000,000)	\$ 46,370,000
Unamortized premium bonds sold	562,800	552,122	(654,821)	460,101
Governmental activity short-term debt	<u>\$ 80,562,800</u>	<u>\$ 46,922,122</u>	<u>\$ (80,654,821)</u>	<u>\$ 46,830,101</u>
<b>Business-type activities:</b>				
Commercial paper	\$ 100,000,000	\$ -	\$ -	\$ 100,000,000
Business-type activity short-term debt	<u>\$ 100,000,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 100,000,000</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – CONTINUED**

**Long-term debt**

King County Primary Government's long-term debt is reported under governmental activities and business-type activities. Governmental activities long-term debt consists of general obligation bonds, general obligation capital leases, and special assessment bonds with governmental commitment. Special assessment bonds are guaranteed for payment from resources of the Road Improvement Guaranty Fund if a road improvement district fails to pay.

Business-type activities long-term debt consists of limited tax general obligation bonds accounted for in the King County International Airport, Solid Waste, Public Transportation, and Water Quality Enterprise Funds; revenue capital leases accounted for in the Public Transportation Fund; and State of Washington revolving fund loans and revenue bonds accounted for in the Water Quality Enterprise.

**KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – CONTINUED**

**SCHEDULE OF LONG-TERM DEBT  
(Page 1 of 3)**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Outstanding</u>
<b>I. Governmental Activities - Long-Term Debt</b>				
<b>IA. GOVERNMENTAL ACTIVITIES - GENERAL OBLIGATIONS</b>				
LIMITED GENERAL OBLIGATION BONDS				
Payable from Limited G.O. Bond Redemption Fund				
1993 Various Purpose Series B (Partial)	12/01/93	5.35% to 6.70%	\$ 109,435,833	\$ 42,110,000
1996 Various Purpose Series A (Partial)	02/01/96	5.00% to 5.25%	105,268,054	10,360,000
1996 Refunding Series B	03/01/96	4.10% to 4.60%	10,348,276	5,510,353
1997 Baseball Stadium Parking Facilities(Taxable) Series C	04/01/97	7.06% to 7.79%	25,000,000	4,185,000
1997 Baseball Stadium Series D	04/17/97	4.60% to 5.75%	150,000,000	76,730,000
1997 Kingdome Debt Service Reimburse (Taxable) Series E	12/01/97	6.25% to 6.88%	6,595,000	6,285,000
1997 Kingdome Debt Refunding Series F	12/01/97	5.00% to 5.20%	51,525,000	51,085,000
1997 Various Purpose Series G (Partial)	12/01/97	4.50% to 5.00%	72,080,000	39,090,000
1999 Various Purpose Series A (Partial)	05/01/99	4.00% to 5.25%	85,694,670	43,137,068
2001 Various Purpose (Partial)	11/15/01	3.00% to 5.00%	26,925,000	22,020,000
2002 Refunding 97B Series (Baseball Stadium)	05/20/02	4.00% to 5.50%	124,575,000	100,755,000
2002 Various Purpose (Road CIP)	09/30/02	2.00% to 5.00%	38,340,000	34,035,000
2003 Limited Tax G.O. (Payoff BAN 2003B) Series A	10/30/03	2.00% to 5.25%	27,605,000	26,795,000
2003 Refunding Various Purpose Series B (Partial)	10/30/03	2.00% to 5.25%	27,890,000	27,655,000
2004 Refunding 1996A Series A	09/21/04	2.00% to 5.00%	57,045,000	57,045,000
2004 Limited Tax G.O. (Payoff BAN2003A) Series B	10/01/04	2.50% to 5.00%	82,435,000	82,435,000
2004 Baseball Stadium (Refg 1997C Partial ) (Taxable) Series C	12/21/04	2.92% to 4.49%	13,195,000	13,195,000
2004 Baseball Stadium (Refg 1997D Partial ) Series D	12/21/04	3.00% to 5.00%	32,075,000	32,075,000
Total payable from limited G.O Redemption Fund			<u>1,046,031,833</u>	<u>674,502,421</u>
Payable from Internal Service Funds				
1996 Various Purpose A (Partial)	02/01/96	5.00% to 5.25%	9,969,883	1,745,000
1997 Various Purpose G (Partial)	12/01/97	4.50% to 5.00%	1,270,000	450,000
1999 Limited Tax G.O. Various Purpose Series A	05/01/99	4.00% to 5.25%	525,000	280,000
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	1,050,000	775,000
Total payable from Internal Service Funds			<u>12,814,883</u>	<u>3,250,000</u>
Limited G.O. capital leases				
Payable from Public Health	Various	Various	760,972	309,349
Payable from General Fund - Issaquah District Court	09/29/98	3.80% to 5.05%	5,900,000	5,025,000
Payable from Various Funds - King Street Center's Tenants	06/01/97	4.50% to 5.13%	78,275,000	74,385,000
Payable from Harborview Medical Center	11/13/02	4.00% to 5.38%	62,540,000	62,540,000
Total limited G.O. capital leases			<u>147,475,972</u>	<u>142,259,349</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES - LIMITED GENERAL OBLIGATION DEBT</b>			<u>\$ 1,206,322,688</u>	<u>\$ 820,011,770</u>



**KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – CONTINUED**

**SCHEDULE OF LONG-TERM DEBT  
(Page 2 of 3)**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Outstanding</u>
IA. GOVERNMENTAL ACTIVITIES - GENERAL OBLIGATIONS (continued)				
UNLIMITED GENERAL OBLIGATION BONDS				
Payable from Unlimited G.O. Redemption Fund				
2000 Refunding Bonds	10/01/00	5.00% to 5.50%	\$ 102,740,000	\$ 71,280,000
2001 Harborview Medical Center	01/22/01	4.00% to 5.00%	29,130,000	26,400,000
2003 Refunding 1993C Bonds	04/23/03	2.00% to 5.25%	208,795,000	90,305,000
2004 ULTGO Bonds Series A (HMC)	05/04/04	2.00% to 5.00%	110,000,000	110,000,000
2004 ULTGO Bonds Series B (HMC)	09/14/04	3.00% to 5.00%	54,000,000	54,000,000
Total payable from Unlimited General Obligation Bond Redemption Fund			<u>504,665,000</u>	<u>351,985,000</u>
Payable from Stadium G.O. Bond Redemption Fund				
2000 Refunding Bonds	10/01/00	5.00% to 5.50%	<u>18,880,000</u>	<u>13,565,000</u>
TOTAL UNLIMITED GENERAL OBLIGATION BONDS			<u>523,545,000</u>	<u>365,550,000</u>
IB. SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT				
Special assessment bonds with governmental commitment - bonds payable from Road Improvement Districts S.A. Bond Redemption Fund				
RID 2 Consolidated	07/01/86	7.88% to 8.25%	<u>286,192</u>	<u>15,000</u>
TOTAL SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT			<u>286,192</u>	<u>15,000</u>
<b>Total Governmental Activities - Long-Term Debt</b>			<u>\$ 1,730,153,880</u>	<u>\$ 1,185,576,770</u>
II. Business-Type Activities - Long-Term Debt				
IIA. BUSINESS-TYPE ACTIVITIES - GENERAL OBLIGATIONS				
LIMITED GENERAL OBLIGATION BONDS				
Payable from Enterprise Funds				
1995 Limited Tax (Water Quality) Series A	05/01/95	5.50% to 5.88%	90,000,000	315,000
1996 Limited Tax Refunding Series B (Partial)	03/01/96	4.10% to 4.75%	12,631,724	7,989,647
1996 Limited Tax G.O. Refunding (Revenue Bonds) Series C	12/15/96	5.00% to 6.25%	130,965,000	98,095,000

**KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – CONTINUED**

**SCHEDULE OF LONG-TERM DEBT  
(Page 3 of 3)**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Outstanding</u>
<b>IIA. BUSINESS-TYPE ACTIVITIES - GENERAL OBLIGATIONS (continued)</b>				
<b>LIMITED GENERAL OBLIGATION BONDS</b>				
Payable from Enterprise Funds				
1998 LTGO (Public Transport. Sales Tax) Refunding Series A	05/15/98	4.50% to 5.00%	\$ 85,715,000	\$ 62,710,000
1998 Limited Tax G.O. Refunding(WQ-LTGO & REV.) Series B	09/15/98	4.75% to 5.25%	261,625,000	257,650,000
1999 Limited Tax G.O. (Refunding part) Series A	05/01/99	4.00% to 5.25%	8,720,330	7,717,932
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	8,580,000	7,770,000
2002 LTGO (Public Transportation Sales Tax) Refunding Bonds	10/21/02	3.00% to 5.50%	64,285,000	59,365,000
2003 LTGO Refunding 93A Bonds Series B (Partial)	10/30/03	2.00% to 5.25%	12,545,000	9,630,000
2004 LTGO (Public Transportation Sales Tax) Bonds	06/08/04	2.50% to 5.50%	49,695,000	49,695,000
Total payable from Enterprise Funds			<u>724,762,054</u>	<u>560,937,579</u>
<b>BUSINESS-TYPE ACTIVITIES - REVENUE BONDS, CAPITAL LEASES AND LOANS</b>				
Payable from Enterprise Funds				
Sewer and Drainage Bond Issue 472 Special	05/01/75	-0- -0-	500	500
1999 Sewer Revenue Bonds Series 1	06/01/99	5.25% to 5.50%	80,000,000	80,000,000
1999 Sewer Revenue Bonds Series 2	11/01/99	5.00% to 6.25%	60,000,000	6,225,000
2001 Sewer Revenue Bonds Junior Lien Series A	08/06/01	Variable Rate <sup>(a)</sup>	50,000,000	50,000,000
2001 Sewer Revenue Bonds Junior Lien Series B	08/06/01	Variable Rate <sup>(a)</sup>	50,000,000	50,000,000
2001 Sewer Revenue and Refunding Bonds	11/13/01	3.00% to 5.25%	270,060,000	249,480,000
2002 Sewer Revenue Bonds Series A	08/14/02	5.00% to 5.50%	100,000,000	100,000,000
2002 Sewer Revenue Refunding Bonds Series B	10/03/02	3.00% to 5.50%	346,130,000	333,255,000
2003 Sewer Revenue Refunding Bonds Series A	04/24/03	2.00% to 5.25%	96,470,000	94,620,000
2004 Sewer Revenue Series A	03/18/04	4.50% to 5.00%	185,000,000	185,000,000
2004 Sewer Revenue Refg 1999-2 Bonds Series B	03/18/04	2.00% to 5.00%	61,760,000	61,760,000
2000-2004 State of Washington Loans	Various	0.50% to 1.50%	98,516,228	93,465,242
1996 Public Transportation Revenue Capital Leases	Various	5.32%	61,375,628	9,346,559
2000 Public Transportation Revenue Park & Ride Capital Leases	03/30/00	5.00%	4,721,840	3,754,140
Total business-type activities revenue bonds, capital leases, and loans			<u>1,464,034,196</u>	<u>1,316,906,441</u>
<b>Total Business-Type Activities - Long-Term Debt</b>			<u>2,188,796,250</u>	<u>1,877,844,020</u>
<b>Total Long-Term Debt (Excluding G.O. Long-term Liabilities)</b>			<u>\$ 3,918,950,130</u>	<u>\$ 3,063,420,790</u>

- (a) The variable rate bonds initially bear interest at Weekly Rates. The Weekly Rate for each Interest Period in the Weekly Mode is determined by the Remarketing Agents. The bonds in the Weekly Mode may be changed to or from the Weekly Mode to or from a Daily Mode, a Commercial Paper Mode, or a Long-term Mode, or to a Fixed Mode, upon satisfaction of the "Change in Modes" conditions.

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 13 – CONTINUED**

DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2004  
(PAGE 1 OF 2)  
GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds		General Obligation Capital Leases		Special Assessment Bonds (With Governmental Commitment)		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 75,153,990	\$ 49,084,576	\$ 2,324,256	\$ 7,220,286	\$ -	\$ 1,238	\$ 77,478,246	\$ 56,306,100
2006	80,368,474	46,653,706	3,609,502	7,105,156	-	1,237	83,977,976	53,760,099
2007	84,788,041	42,867,249	3,685,591	6,938,666	-	1,238	88,473,632	49,807,153
2008	76,864,034	38,971,894	3,830,000	6,757,028	15,000	1,237	80,709,034	45,730,159
2009	79,674,184	35,206,576	4,020,000	6,564,440	-	-	83,694,184	41,771,016
2010-2014	342,758,698	123,869,901	23,405,000	29,529,498	-	-	366,163,698	153,399,399
2015-2019	181,280,000	50,605,053	30,230,000	22,700,959	-	-	211,510,000	73,306,012
2020-2024	116,180,000	15,220,816	36,490,000	14,037,308	-	-	152,670,000	29,258,124
2025-2029	6,235,000	155,875	26,505,000	5,156,876	-	-	32,740,000	5,312,751
2030-2034	-	-	8,160,000	617,000	-	-	8,160,000	617,000
	<u>\$ 1,043,302,421</u>	<u>\$ 402,635,646</u>	<u>\$ 142,259,349</u>	<u>\$ 106,627,217</u>	<u>\$ 15,000</u>	<u>\$ 4,950</u>	<u>\$ 1,185,576,770</u>	<u>\$ 509,267,813</u>

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 13 – CONTINUED**

DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2004  
(PAGE 2 OF 2)  
BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds		Revenue Bonds Capital Leases and Loans		Total Business-Type Activities		Total Long-Term Debt (Excluding General Obligation Long-Term Liabilities)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 19,821,010	\$ 28,114,297	\$ 32,293,976	55,587,452	\$ 52,114,986	\$ 83,701,749	\$ 129,593,232	\$ 140,007,849
2006	18,606,528	27,220,237	27,978,037	55,311,274	46,584,565	82,531,511	130,562,541	136,291,610
2007	18,991,959	26,335,775	29,808,726	54,093,070	48,800,685	80,428,845	137,274,317	130,235,998
2008	16,315,966	25,509,614	30,892,957	52,770,194	47,208,923	78,279,808	127,917,957	124,009,967
2009	17,095,816	24,770,903	32,270,761	51,328,775	49,366,577	76,099,678	133,060,761	117,870,694
2010-2014	87,521,300	110,945,350	186,557,876	233,078,504	274,079,176	344,023,854	640,242,874	497,423,253
2015-2019	105,080,000	87,961,504	184,729,662	186,654,128	289,809,662	274,615,632	501,319,662	347,921,644
2020-2024	73,190,000	63,376,671	178,740,627	147,784,228	251,930,627	211,160,899	404,600,627	240,419,023
2025-2029	91,075,000	42,671,724	200,781,349	103,078,158	291,856,349	145,749,882	324,596,349	151,062,633
2030-2034	113,240,000	13,875,228	354,292,470	47,348,989	467,532,470	61,224,217	475,692,470	61,841,217
2035-2039	-	-	58,560,000	1,469,275	58,560,000	1,469,275	58,560,000	1,469,275
TOTAL	\$ 560,937,579	\$ 450,781,303	\$ 1,316,906,441	\$ 988,504,047	\$ 1,877,844,020	\$ 1,439,285,350	\$ 3,063,420,790	\$ 1,948,553,163

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 13 – CONTINUED**

The following table summarizes changes in long-term liabilities for the year ended December 31, 2004.

**CHANGES IN LONG-TERM LIABILITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance 01/01/04	Additions	Reductions	Balance 12/31/04	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 870,271,217 <sup>(a)</sup>	\$ 348,750,000	\$ (175,718,796)	\$ 1,043,302,421	\$ 75,153,990
Special assessment bonds with governmental commitment	135,000	-	(120,000)	15,000	-
Less deferred amounts:					
Unamortized premium bonds sold	19,407,827	17,807,465	(4,127,098)	33,088,194	5,065,927
Issuance cost/underwriters' discount	(3,041,708)	(2,362,765)	553,683	(4,850,790)	(701,638)
Refunding losses	(11,859,982)	(8,967,082)	2,049,053	(18,778,011)	(3,609,842)
Total bonds payable	874,912,354	355,227,618	(177,363,158)	1,052,776,814	75,908,437
Limited G.O. capital leases	81,677,093	62,805,185	(2,222,929)	142,259,349	2,324,256
Claims and judgments payable	24,614,304	3,419,661	(6,614,304)	21,419,661	19,529,000
Compensated absences liability	73,018,179	1,885,801	(2,992,442)	71,911,538	3,377,825
Unemployment compensated liabilities	2,275,000	1,601,306	(2,118,306)	1,758,000	1,758,000
Estimated claims settlements and other liabilities	71,797,376	171,551,686	(134,176,810)	109,172,252	73,965,992
Rebatable arbitrage	1,167,999	-	(845,750)	322,249	29,511
Total Governmental activities long-term liabilities	<u>\$ 1,129,462,305</u>	<u>\$ 596,491,257</u>	<u>\$ (326,333,699)</u>	<u>\$ 1,399,619,863</u>	<u>\$ 176,893,021</u>
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 528,773,783	\$ 49,695,000	\$ (17,531,204)	\$ 560,937,579	\$ 19,821,010
Revenue bonds	1,038,055,500	246,760,000	(74,475,000)	1,210,340,500	20,585,500
Less deferred amounts:					
Deferred bond discounts/ refunding losses	(63,277,175)	22,148,086	(22,049,677)	(63,178,766)	(3,022,951)
Total bonds payable	1,503,552,108	318,603,086	(114,055,881)	1,708,099,313	37,383,559
Capital leases	29,146,684	-	(16,045,985)	13,100,699	9,416,178
State revolving loans	86,391,087	9,145,717	(2,071,562)	93,465,242	2,292,796
Claims and judgments payable	11,841,639	2,046,819	(10,343,065)	3,545,393	2,132,351
Compensated absences liability	49,068,738	1,267,272	(4,093,398)	46,242,612	3,444,888
Landfill closure and post-closure care liability	95,267,965	-	(7,371,696)	87,896,269	4,328,557
Other liabilities	1,174,418	2,547,777	(290,725)	3,431,470	1,193,576
Total Business-type activities long-term liabilities	<u>\$ 1,776,442,639</u>	<u>\$ 333,610,671</u>	<u>\$ (154,272,312)</u>	<u>\$ 1,955,780,998</u>	<u>\$ 60,191,905</u>

Governmental activities long-term liabilities, other than debt, are primarily estimated claims settlements liquidated by internal service funds. At year-end, internal service funds estimated claims settlements of \$109,067,983 are included in the above amount. For the governmental activities, compensated absences are liquidated by the governmental fund in which an employee receiving the payment is budgeted, including most notably the General Fund, the Public Health Fund, and the County Road Fund.

(a) In prior years, the bonds payable from component units' resources were reported as part of the component units' liabilities. In 2004, these debts are included with the Primary Government's governmental activities' bonds payable, and the beginning balance of \$854,398,951 has been restated to include \$15,872,266 of bonds payable from component units' resources.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – CONTINUED****Computation of Legal Debt Margin**

Under Washington state law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2½ percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people; any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1½ percent of assessed value of property within the County for general county purposes and ¾ percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1½ percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the \$1.80 per \$1,000 of assessed value operating levy.

**COMPUTATION OF LEGAL DEBT MARGIN  
FOR THE YEAR ENDED DECEMBER 31, 2004**

2004 ASSESSED VALUE	\$ 248,911,782,339
Debt limit of limited tax (LT) general obligations for metropolitan functions	
¾ % of assessed value	\$ 1,866,838,368
Less: Net LT general obligation indebtedness for metropolitan functions	(555,293,819)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 1,311,544,549
Debt limit of LT general obligations for general county purposes and metropolitan functions - 1½ % of assessed value	\$ 3,733,676,735
Less: Net LT general obligation indebtedness for general county purposes	(946,292,170)
Net LT general obligation indebtedness for metropolitan functions	(555,293,819)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions	(1,501,585,989)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	\$ 2,232,090,746
Debt limit of total general obligations for metropolitan functions	
2½ % of assessed value	\$ 6,222,794,558
Less: Net total general obligation indebtedness for metropolitan functions	(555,293,819)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 5,667,500,739
Debt limit of total general obligations for general county purposes	
2½ % of assessed value	\$ 6,222,794,558
Less: Net unlimited tax general obligation indebtedness for general county purposes	(345,099,274)
Net LT general obligation indebtedness for general county purposes	(946,292,170)
Net total general obligation indebtedness for general county purposes	(1,291,391,444)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	\$ 4,931,403,114

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – CONTINUED****Refunding and Defeating General Obligation Bond Issues – 2004**

Limited Tax General Obligation and Refunding Bonds, 2004A – On September 21, 2004, the County issued \$57,045,000 in Limited Tax General Obligation Bonds with an average interest rate of 3.59 percent to advance refund \$57,010,000 of outstanding various purpose Limited Tax General Obligation Bonds – 1996A bonds with an average interest rate of 5.19 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the 1996A Series bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,685,371. This difference, reported in the Statement of Net Assets as a reduction from bonds payable, is being charged to operations through fiscal year 2016, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$4,527,279 over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$3,708,552.

Limited Tax General Obligation (Baseball Stadium) and Refunding Bonds, 2004C (Taxable) – On December 21, 2004, the County issued \$13,195,000 in Limited Tax General Obligation Bonds with an average interest rate of 4.16 percent to advance refund \$18,170,000 of outstanding Limited Tax General Obligation Bonds, 1997C (Taxable) with an average interest rate of 8.05 percent. The net proceeds, together with \$7,985,000 of other monies, were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the 1997C Series bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,905,000. This difference, reported in the Statement of Net Assets as a reduction from bonds payable, is being charged to operations through fiscal year 2011, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$16,117,237 over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2,472,278.

Limited Tax General Obligation (Baseball Stadium) and Refunding Bonds, 2004D (Tax-Exempt) – On December 21, 2004, the County issued \$32,075,000 in Limited Tax General Obligation Bonds with an average interest rate of 3.26 percent to advance refund \$36,155,000 of outstanding Limited Tax General Obligation Bonds, 1997D (Tax-Exempt) with an average interest rate of 5.72 percent. The net proceeds, together with \$5,000,000 of other monies, were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the 1997D Series bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt by \$3,376,711. This difference, reported in the Statement of Net Assets as a reduction from bonds payable, is being charged to operation

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – CONTINUED**

through fiscal year 2011, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$8,700,508 over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$1,703,458.

**Refunding Water Quality Revenue Bond Issues – 2004**

Sewer Revenue Refunding Bonds, 2004B – On March 18, 2004, the County issued \$61,760,000 in Sewer Revenue Bonds with an average interest rate of 4.31 percent to advance refund \$53,775,000 of outstanding Sewer Revenue Bonds 1999-2 with an average interest rate of 6.19 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the 1999-2 bonds are considered defeased and the liability for those bonds has been removed from the business-type column of the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt by \$8,662,168. This difference, reported in the Statement of Net Assets as a reduction from bonds payable, is being charged to operation through fiscal year 2035, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$7,195,082 over the life of the bonds and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,070,221.

**Refunded Bonds**

King County has 17 outstanding refunded and defeased bond issues of limited and unlimited tax general obligation bonds and revenue bonds that were originally reported in the governmental and business-type activities of the Statement of Net Assets. The payments of principal and interest on these bond issues are the responsibility of the escrow agent, the US Bank of Washington, and the liability of the defeased bonds has been removed from the Statement of Net Assets.

The following is a schedule of defeased bonds outstanding as of December 31, 2004.

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Limited Tax G.O. Refunded Bonds	\$ 286,990,000	\$ 87,460,000
Unlimited Tax G.O. Refunded Bonds	35,660,000	-
Revenue Bonds	-	53,775,000
Totals	<u>\$ 322,650,000</u>	<u>\$ 141,235,000</u>

**Future Borrowing Plans**

During the first quarter of 2005, the County sold \$200 million of limited tax general obligation bonds payable from Sewer Revenues to provide funding for its Wastewater capital



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 13 – CONTINUED**

improvement program. These bonds are additionally secured by a pledge of the revenues of the County's sewer system.

The County has identified the need to issue approximately \$200 million of additional limited tax general obligation bonds through 2007. The proceeds of these bonds are expected to provide funds to finance the Transit Division's capital improvement program (\$50 million), open space acquisitions (\$30 million), remodeling projects at the County's jail (\$20 million), roads improvements (\$20 million), improvements at the Harborview Medical Center (\$50 million), the solid waste division's capital program (\$15 million), and various other projects. The \$50 million of bonds expected to be issued on behalf of the Transit Division's capital improvement program will be additionally secured by the sales tax revenues dedicated to the Transit Division.

For much of the balance of the decade the County will need to issue approximately \$250 million of new debt annually to provide continuing funding for its Wastewater Treatment Division's capital improvement program. While most of this new debt will be in the form of Sewer Revenue bonds, a portion may be comprised of additional limited tax general obligation bonds that are secured by a pledge of the revenues of the Wastewater Treatment Division.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 14 – INTERFUND BALANCES AND TRANSFERS**

**Interfund Balances**

Due from/to other funds and interfund short-term loans receivable and payable

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Public Health Fund	\$ 1,000,064
	Nonmajor Governmental Funds	11,256,416
	Nonmajor Enterprise Funds	2,498,188
	Internal Service Funds	1,409,621
	Investment Trust Funds	2,903,396
	All Others <sup>(a)</sup>	85,887
Public Health Fund	General Fund	135,545
	All Others <sup>(a)</sup>	152,287
Nonmajor Governmental Funds	General Fund	2,017,757
	Nonmajor Governmental Funds	13,765,578
	Public Transportation Enterprise	168,939
	Water Quality Enterprise	1,447,377
	Nonmajor Enterprise Funds	562,696
	Internal Service Funds	510,535
	All Others <sup>(a)</sup>	63,976
Public Transportation Enterprise	Nonmajor Governmental Funds	1,068,853
	All Others <sup>(a)</sup>	88,058
Water Quality Enterprise	Nonmajor Governmental Funds	907,184
	Nonmajor Enterprise Funds	292,940
Nonmajor Enterprise Funds	General Fund	382,564
	Nonmajor Governmental Funds	715,233
	All Others <sup>(a)</sup>	107,908
Internal Service Funds	General Fund	700,425
	Nonmajor Governmental Funds	1,488,812
	Public Transportation Enterprise	625,107
	Internal Service Funds	559,844
	All Others <sup>(a)</sup>	61,141
Agency Funds	Agency Funds	2,037,790
Total		<u>\$ 47,014,121</u>

(a) Multiple fund types with account balances of less than \$100,000 are aggregated into "All Others."

The interfund balances resulted from the time lag between the dates: (1) when interfund goods and services were provided or reimbursable expenditures incurred, and when interfund

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 14 – CONTINUED**

payments were made; and (2) when interfund short-term loans were made and when the loans were repaid.

Advances from/to other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 300,000
Public Transportation Enterprise	General Fund	1,500,000
	Nonmajor Governmental Funds	491,925
Total		<u>\$ 2,291,925</u>

The advance of \$300,000 from the General Fund to Nonmajor Governmental Funds was a loan made for the purpose of cash flow and is not scheduled to be repaid next year. The advance of \$491,925 from the Public Transportation Enterprise to Nonmajor Governmental Funds was for the purpose of acquiring capital assets. Of the \$491,925, \$332,491 is not scheduled to be collected next year. Another advance of \$1.5 million, arising from the sale of the Tashiro-Kaplan Building, is reported as "Advance to other funds" in the Public Transportation Enterprise and as "Advance from other funds" in the General Fund. None of the balance is scheduled to be collected in the coming year.

Due from/to primary government and component unit

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Cultural Development Authority of King County	King County – Nonmajor Governmental Funds	<u>\$ 2,733,567</u>

The Cultural Development Authority of King County (CDA), dba 4Culture, is a component unit of King County. As of December 31, 2004, amounts receivable and payable between CDA and King County were \$2,733,567. This amount was the funds due to CDA from King County for pass-through grants and a share of hotel/motel tax revenues.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 14 – CONTINUED****Interfund Transfers**

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Public Health Fund	\$ 16,178,205
	Nonmajor Governmental Funds	35,630,704
	Nonmajor Enterprise Funds	308,062
	Internal Service Funds	1,264,795
Public Health Fund	Nonmajor Governmental Funds	353,886
Nonmajor Governmental Funds	General Fund	380,516
	Nonmajor Governmental Funds	99,077,595
	Public Transportation Enterprise	152,656
	Nonmajor Enterprise Funds	506,177
	All Others <sup>(a)</sup>	136,800
Public Transportation Enterprise	Nonmajor Governmental Funds	986,090
	All Others <sup>(a)</sup>	8,400
Water Quality Enterprise	Nonmajor Governmental Funds	166,017
	All Others <sup>(a)</sup>	11,429
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	345,743
	All Others <sup>(a)</sup>	26,317
Internal Service Funds	Nonmajor Governmental Funds	1,693,662
	Internal Service Funds	395,847
	All Others <sup>(a)</sup>	42,598
Total transfers in		\$ 157,665,499
Transfer out of capital assets:		
From All Others to Internal Service Funds <sup>(a)</sup>		50,727
Total transfers out		\$ 157,716,226

(a) Multiple fund types with account balances of less than \$100,000 are aggregated into "All Others."

Transfers are used to move resources from a fund collecting them to the fund using them, as required by statute or budget, and to account for ongoing operating subsidies between funds in accordance with budget authorizations.

In the fund financial statements, total transfer out of \$157,716,226 is greater than total transfer in of \$157,665,499 because of transfers of capital assets. In 2004, Internal Service Funds reported capital contributions of \$42,601 and \$8,126 for the capital assets received from the Water Quality Enterprise and the Radio Communications Services Enterprise, respectively. The contributing funds reported the same amounts of transfer out. In the year ended December 31, 2004, the County made a one-time transfer of \$558,240 to DES Equipment Replacement Fund, a new internal service fund. Of the \$558,240, \$124,530 was transferred from the General Fund, \$37,863 from Nonmajor Governmental Funds, and \$395,847 from other Internal Service Funds.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 15 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY**

**Net Assets**

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

*Invested in capital assets, net of related debt* – Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* – Results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

*Unrestricted net assets* – Consists of net assets that do not meet the definition of the two preceding categories.

**Restricted Net Assets – Business-type Activities**

\$ 171,320,518	Public Transportation Enterprise restricted for future construction projects (\$165,029,570) and debt service (\$6,290,948).
95,437,565	Water Quality Enterprise restricted for debt service (\$94,072,864) and litigation settlements (\$1,364,701).
14,609,951	King County International Airport Enterprise restricted for future construction projects.
1,533,865	Radio Communications Enterprise restricted for construction.
<u>202,503</u>	Sewer Utility Enterprise bond restrictions.
<u>\$ 283,104,402</u>	Total Business-type Restricted Net Assets

**Reserves and Designations**

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 15 – CONTINUED**

Following is a list of all reserves and designations used by King County and a description of each:

Reserved Fund Balances

	<u>General Fund</u>	<u>Public Health Fund</u>	<u>Special Revenue</u>	<u>Nonmajor Debt Service</u>	<u>Capital Projects</u>
Reserved for:					
Inventory	\$ -	\$ 1,923,561	\$ -	\$ -	\$ -
Prepayments	-	-	4,078,507	-	-
Encumbrances	5,100,011	1,278,450	22,271,088	-	61,479,139
Advances to other funds	300,000	-	-	-	-
Animal services	401,636	-	-	-	-
Crime victim compensation program	717,003	-	-	-	-
Drug enforcement program	38,921	-	-	-	-
Antiprofitteering program	393,047	-	-	-	-
Dispute resolution centers	95,820	-	-	-	-
Inmate welfare	432,734	-	-	-	-
Laptop replacement	310,300	-	-	-	-
Real property title assurance	25,152	-	-	-	-
Training and equipment for Medic One	-	401,427	-	-	-
Youth sports facilities grant endowment	-	-	661,306	-	-
PFD stadium bond debt service	-	-	-	12,783,104	-
PFD stadium bond debt service - escrow	-	-	-	3,004,384	-
Traffic mitigation	-	-	-	-	3,075,303
Total reserved fund balances	<u>\$ 7,814,624</u>	<u>\$ 3,603,438</u>	<u>\$ 27,010,901</u>	<u>\$ 15,787,488</u>	<u>\$ 64,554,442</u>

Reserved for inventory – Segregates a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available and spendable for the fund's current operations.

Reserved for prepayments – Segregates a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – Segregates a portion of fund balance for commitments made for goods or services that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – Segregates a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 15 – CONTINUED**

Reserved for animal services – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding the animal services program, which promotes and enforces the humane treatment of the animal population of King County.

Reserved for crime victim compensation program – Segregates a portion of fund balance to indicate that resources are legally restricted to the crime victim compensation program and are not spendable resources for other expenditures.

Reserved for drug enforcement program – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purposes of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofitteering program – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding dispute resolution centers.

Reserved for inmate welfare – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for laptop replacement – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of replacing laptop computers used by police officers.

Reserved for real property title assurance – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for training and equipment for Medic One – Segregates a portion of fund balance to indicate that the use of donations from individuals to Medic One are restricted to equipment purchases and training for paramedics and medical services officers.

Reserved for youth sports facilities grant endowment – Segregates a portion of fund balance pending a decision to establish a separate Permanent Fund for an endowment. The investment income from the endowment will be used exclusively to supplement the Youth Sports Facilities Grant Fund for the acquisition and operation of outdoor sports fields for youth.

Reserved for PFD stadium bond debt service – Segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, 1997D, 2002 Refunding, and 2004D Refunding tax exempt Baseball Stadium bond issues.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 15 – CONTINUED**

Reserved for PFD stadium bond debt service – escrow – Segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2, 1997C, and 2004C Refunding taxable Baseball Stadium bond issues.

Reserved for traffic mitigation – Segregates a portion of fund balance related to the mitigation payment system revenues to indicate that resources are legally restricted solely for the purpose of funding growth-related traffic mitigation projects.

Designated Fund Balances

	<u>General Fund</u>	<u>Public Health Fund</u>	<u>Nonmajor Special Revenue</u>
Designated for:			
Equipment replacement	\$ -	\$ -	\$ 3,431,864
Capital projects	2,536,115	-	-
Claims and judgments	-	1,890,661	-
Environmental health services	-	3,204,358	-
FEMA match	-	-	130,607
Insurance/inpatient	-	-	2,746,988
Reappropriation	1,452,433	2,230	1,783,600
Contingencies	15,057,616	-	2,758,950
Children and family services program	2,376,274	-	-
Total designated fund balances	<u>\$ 21,422,438</u>	<u>\$ 5,097,249</u>	<u>\$ 10,852,009</u>

Designated for equipment replacement – Indicates that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – Identifies a portion of fund balances in the General and Special Revenue Funds equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be decreased, increased, and changed in scope by the County Council in their budget deliberations.

Designated for claims and judgment – Segregates a portion of fund balance to indicate that resources have been earmarked for payment of legal settlements relating to the collection of past Public Health revenues.

Designated for environmental health services – Segregates environmental health fee revenue which may only be used by Environmental Health Services as mandated by the Board of Health.

Designated for FEMA match – Identifies a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 15 – CONTINUED**

Designated for insurance/inpatient – Sets aside funds used to cover inpatient adjustments, outpatient tier benefits and closeout expenditures if the King County Regional Services Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payment and consolidated revenues. The capitated revenue for Prepaid Health Plan (PHP) services is based on the number of Medicaid recipients in King County. The consolidated revenues are expended for the PHP services for adults and children, as well as other services required to support people with mental illness in King County.

Designated for reappropriation – Used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Designated for contingencies – In the General Fund, this account segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance for the following: (1) maintenance of essential county services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues; (2) payment of legal settlements relating to the collection of past General Fund revenues; (3) payment of catastrophic losses in excess of the Insurance Fund reserve and all other fund balances; and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds \$15 million. In the Department of Development and Environmental Services (DDES) Fund, this account sets aside revenues for permit fee supported areas of DDES in the following categories: (1) Reserve for Staff Reductions; (2) Revenue Shortfall Reserve (amount to cover a 15% fee revenue shortfall for three months at the budgeted level for fee revenue); and (3) Reserve for Fee Waivers and other Unanticipated Costs.

Designated for children and family services programs – Segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance to provide children and family services to the residents of King County.

**Management Plans for Internal Service Fund Unrestricted Net Assets**

The following Internal Service Funds have unrestricted net assets that have been earmarked by County management for a specific future use as of December 31, 2004:

DES Equipment Replacement Fund – \$558,240 for the replacement of personal computers.

Information and Telecommunication Services Fund – Data Processing Subfund – \$525,000 for the replacement of electronic data processing equipment.

Information and Telecommunications Services Fund – Telecommunications Subfund – \$1,191,660 for the replacement of telecommunications equipment.

Insurance Fund – \$12,371,197 for catastrophic losses. The catastrophic loss reserve will be used to respond to large, nonrecurring losses exceeding \$1 million per incident.

King County Geographic Information Service (GIS) Fund – \$85,120 for the replacement of GIS equipment.

Motor Pool Equipment Rental Fund – \$7,482,531 for the replacement of rental equipment.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 15 – CONTINUED**

Public Works Equipment Rental Fund – \$10,804,559 for the replacement of rental equipment.

Wastewater Equipment Rental Fund – \$4,769,092 for the replacement of rental equipment.

**Restatements of Beginning Balances**

Public Health Fund – Motor Vehicle Excise Tax receipts of \$4,744,637 were previously mistakenly reported as deferred revenues. The receipts should have been reported as revenues when received in 2001. This prior period adjustment eliminates the deferred revenues and increases the Public Health Fund's beginning fund balance.

County Road – In a prior year, the County Road Fund accrued Federal Emergency Management Agency (FEMA) grant revenues. When the grant proceeds were received revenue was mistakenly recognized for the second time and the receivable was not liquidated. This prior period adjustment eliminates the grant receivable and decreases the County Road Fund's beginning fund balance.

	<b>Governmental Activities</b>	<b>Public Health Fund</b>	<b>Nonmajor Special Revenue Funds</b>	<b>County Road Fund</b>
Net Assets/Fund Balance - December 31, 2003	\$ 1,220,660,797	\$ 8,947,411	\$ 99,130,641	\$ (317,032)
Prior period revenues	3,258,154	4,744,637	(1,486,483)	(1,486,483)
Net Assets/Fund Balance - January 1, 2004 (Restated)	<u>\$ 1,223,918,951</u>	<u>\$ 13,692,048</u>	<u>\$ 97,644,158</u>	<u>\$ (1,803,515)</u>

**Component Unit – Harborview Medical Center (HMC)****Restricted Net Assets**

Restricted expendable net assets – The \$151,887,932 consists of investments restricted for capital use and by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects. Investments restricted by donor represent assets that are restricted by creditors, grantors, or contributors external to the HMC.

Restricted nonexpendable net assets – The \$745,529 consists of permanent endowments by donors.

**Component Unit – Cultural Development Authority of King County (CDA)****Restatement of Beginning Net Assets**

At December 31, 2003, King County reported total net assets for the CDA, a component unit of King County, of \$6,658,822. The CDA reported, on their statements, total net assets of \$6,595,211, a difference of \$63,611. On the CDA's books, this decrease in net assets was due to a change in the expense allocation method resulting in fewer administration expenses charged for the One Percent for Arts Program.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 15 – CONTINUED**

	<b>Component Unit Total</b>	<b>Cultural Development Authority</b>
Net Assets – December 31, 2003	\$ 872,236,157	\$ 6,658,822
Prior period expenditures	(63,611)	(63,611)
Net Assets – January 1, 2004 (Restated)	<u>\$ 872,172,546</u>	<u>\$ 6,595,211</u>

**Restricted Net Assets**

Restricted expendable net assets – \$7,537,608 is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – \$8,576,298 is a long-term endowment funded from a portion of the hotel/motel tax pursuant to RCW 67.28.180.3(e) to finance future arts and heritage cultural programs.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004****NOTE 16 – LEGAL MATTERS/CONTINGENT LIABILITIES****Primary Government**

Any liability from litigation currently pending or probable of assertion against King County and in which, to our knowledge, the likelihood of an unfavorable outcome with material damages (in excess of \$500,000) assessed against King County is probable, has been accrued in the financial statements.

The following litigation, or threatened litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A potential administrative order that may require King County, the City of Seattle, Boeing, and the Port of Seattle, to remediate the contamination in the Lower Duwamish Waterway. This will depend on the results of an investigation currently being conducted by these same agencies, in compliance with an earlier administrative order, to determine the nature and extent of the contamination. At this early stage, the County's share of the cost of remediation is undeterminable.
- A potential court order that may require the County to pay approximately \$3.0 million in interest related to the refund of vehicle license fees brought about by Initiative 779. Although a trial court has authorized the vehicle license fee refund scheme offered by the County and the Department of Licensing, certain plaintiffs have filed a motion with the Supreme Court for direct review of the trial court's decision, raising the possibility that the refund scheme may be modified to include interest.
- A lawsuit filed with the King County Superior Court by a group of part-time transit operators seeking backpay, prejudgment interest, double damages, and attorneys' fees. Plaintiffs allege they did not receive the same medical and leave benefits as other career service employees and that this violates provisions of the County charter and ordinances, State constitution, and the United States code.
- A class action lawsuit alleging violation of the Washington Industrial Welfare Act regarding the provision of paid lunch breaks for certain employees of the Department of Adult and Juvenile Detention, Juvenile Division's Alder Street facility. Plaintiffs seek backpay, double damages, prejudgment interest, attorneys' fees, and declaratory relief. In its review of a similar case, the Washington State Supreme Court concluded that the relevant provisions of the Industrial Welfare Act did not apply to State political subdivisions prior to 2003. In the light of this, the County anticipates either the plaintiffs to file for dismissal, or the County to move for summary judgment.
- A class action lawsuit filed on behalf of Transit operators alleging the County failed to properly compensate them for travel time. The class seeks back wages, double damages, and attorneys' fees.
- A class action lawsuit challenging the legality of the permit review fees assessed by the County's Department of Development and Environmental Services (DDES). Plaintiffs seek declaratory and injunctive relief and a refund of fees that plaintiffs were allegedly overcharged. Initial court rulings acknowledged that indirect costs are proper components of DDES permit fees and approved most indirect costs but left other issues, such as reasonableness of DDES' fees, for future resolution.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 16 – CONTINUED**

**Contingent Liabilities**

- Although the Department of Ecology has not mandated remediation of any site adjacent to combined sewer overflows, the Wastewater Treatment Enterprise has conducted a review and has identified seven areas that may require sediment remediation. Due to the high level of regulatory review, approval requirements, and the environmental permitting associated with these projects, and the uncertainty related to the particular remediation alternative for each project, the schedule of required remediation and costs of remediation have not been fully determined. The enterprise has accrued \$2.4 million for the sediment remediation plan as of December 31, 2004.
- King County has entered into several contingent loan agreements totaling \$41.4 million with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support in the form of reserve guarantees for certain bonds issued by KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

**Component Unit – Harborview Medical Center**

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including significant repayments of patient services previously billed. HMC believes that it complies with the fraud and abuse regulations, as well as other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract, the University of Washington agrees to defend, indemnify, and save harmless King County, its elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.

## REQUIRED SUPPLEMENTARY INFORMATION

### Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

#### Roads

The County performs condition assessments on its network of roads through the King County Pavement Management System. This system generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index from zero to one hundred (0–100) that represents the pavement's functional condition based on the quantity, severity, and type of visual distress, such as pavement cracking. Based on the PCI score, condition ratings are assigned as follows: a PCI of less than 30 is defined as "poor to substandard" (heavy pavement cracking and potholes); a PCI of 30 or more but less than 50 is defined to be in "fair" condition (noticeable cracks and/or utility cuts); and a PCI of between 50 and higher is defined to be in "excellent to good" condition (relatively smooth roadway). Condition assessments are undertaken every three years.

The two most recent complete condition assessments of the County's roads are shown below.

<b>Condition ratings</b>	<b>2004-2002</b>		<b>2001-1999</b>	
	<b>(miles)</b>	<b>%</b>	<b>(miles)</b>	<b>%</b>
Arterial roads				
Excellent to good	442.95	81.72	451.08	83.05
Fair	61.06	11.26	44.46	8.19
Poor to substandard	38.04	7.02	47.55	8.76
Total	<u>542.05</u>	<u>100.00</u>	<u>543.09</u>	<u>100.00</u>
Local access roads				
Excellent to good	1,075.36	81.64	1,031.14	80.01
Fair	139.02	10.55	132.27	10.26
Poor to substandard	102.89	7.81	125.47	9.73
Total	<u>1,317.27</u>	<u>100.00</u>	<u>1,288.88</u>	<u>100.00</u>

It is the policy of the King County Road Services Division to maintain at least 80 percent of the road system at a PCI of 40 or better. The following table (derived from the table of condition ratings) shows the number and percentage of miles of roads that meet the 40 PCI level.

<b>PCI score interval</b>	<b>2004-2002</b>		<b>2001-1999</b>	
	<b>(miles)</b>	<b>%</b>	<b>(miles)</b>	<b>%</b>
Arterial roads				
PCI 40 - 100	475.67	87.75	477.65	87.95
PCI 0 - 39	66.38	12.25	65.44	12.05
Total	<u>542.05</u>	<u>100.00</u>	<u>543.09</u>	<u>100.00</u>
Local access roads				
PCI 40 - 100	1,165.53	88.48	1,108.24	85.99
PCI 0 - 39	151.74	11.52	180.64	14.01
Total	<u>1,317.27</u>	<u>100.00</u>	<u>1,288.88</u>	<u>100.00</u>

## REQUIRED SUPPLEMENTARY INFORMATION - continued

The majority of roads that fall below the established rating (PCI = 40) are local access roads that are situated in rural areas.

Below is information on planned (budgeted) and actual expenditures incurred to maintain and preserve the road network at or above the minimum acceptable condition level from 2000 to 2004. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level.

	Amounts in Millions				
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Budgeted	\$31.19	\$38.83	\$37.04	\$34.47	\$31.48
Expended	29.13	34.59	34.95	34.39	32.02

Underspending of budgeted amounts usually results when roads are removed from the project list because of conflicts with anticipated utility work; lowering of priority due to cost efficiency considerations, such as when only a few roads are to be resurfaced in remote locations; and weather-related work reduction or stoppages.

### Bridges

King County currently maintains 181 bridges. Physical inspections to determine the condition of the bridge and the degree of wear and deterioration are carried out at least every two years. Inspections reveal deficiencies in bridges such as steel corrosion, damaged guardrails, rotten timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspections report along with recommended repairs and needed services.

Each year the County undergoes a bridge prioritization process to determine potential candidates for replacement or rehabilitation. A weighted 10-point priority scale (sufficiency rating, seismic rating, geometrics, hydraulics, load limits, traffic safety, serviceability, importance, useful life, and structural concern) ranks the bridges in order; the results are considered in the planning and programming of major bridge studies and construction projects in the Roads Capital Improvement Program.

A key element in the priority scale is the sufficiency rating, the measure considered by state and federal governments as the basis for establishing eligibility and priority for bridge replacement or rehabilitation. Sufficiency rating is a numerical rating of a bridge based on its structural adequacy and safety, essentiality for public use, and its serviceability and functional obsolescence. This index may vary from 100 (a bridge in new condition) to 0 (a bridge incapable of carrying traffic). A sufficiency rating of 50 or over indicates a bridge with a good deal of service life remaining. A bridge that scores between 0 and 49 would be considered for replacement funding evaluation, though typically only bridges that score less than 30 are selected for Federal replacement funding.

**REQUIRED SUPPLEMENTARY INFORMATION - continued**

Below are the two most recent bridge sufficiency ratings.

<u>Bridge sufficiency rating</u>	<u>Number of Bridges</u>	
	<u>2004</u>	<u>2002</u>
0 - 20	9	10
21 - 30	2	7
31 - 49	20	16
50 - 100	150	148
Total	<u>181</u>	<u>181</u>

It is the policy of the King County Road Services Division to maintain bridges in such a manner that no more than 12 will have a sufficiency rating of 20 or less. A rating of 20 or less is usually indicative of a bridge with a structural deficiency. The most common remedy is full replacement or rehabilitation of the bridge. As of December 31, 2004, there were 9 bridges with a sufficiency rating of 20 or below.

Amounts budgeted and spent to maintain and preserve bridges from 2000-2004 are shown in the following table.

	<u>Amounts in Millions</u>				
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Budgeted	\$4.04	\$3.81	\$4.21	\$4.28	\$3.87
Expended	3.08	3.35	3.83	3.78	2.09

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level. Backlogs in maintenance work orders greatly affect the trend in maintenance costs. Such backlogs could result from increased bridge traffic, higher weight loads, manpower shortages, stringent environmental restrictions, and an aging bridge inventory.



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